Private sector investment in development: prospects and obstacles

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Abstract

This report is an exploratory discussion of the prospects for private sector investment in development initiatives. Based on a set of structured and unstructured interviews, a press review and a survey of the relevant literature, the report points to a growth in the areas of commonality between the worlds of investment and development, in that there is increasing recognition of the need to direct resources to South Africa's poor at the same time as market forces are starting to play an enlarged role in development. The report argues however, that the social context in which investors are `embedded' is very different from that of development practitioners, leading to a situation in which development projects are seen as risky investments. The difficulty experienced by private investors in understanding the world of development is identified by the report as the single largest obstacle to private sector investment in development. The report draws the conclusion that mediating institutions are required to structure relationships between development agents and investors.

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Lisa Garson for nagging and
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Declaration

I declare that this research report is my own unaided work. It is being submitted for the degree of Master of Arts in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in any other university.

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Signed on this the 12 day of December 1994.

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CHAPTER ONE: INTRODUCTION AND METHODS

> 'Economics is all about how people make choices; sociology is all about how they don't have any choices to make.'
>
> James Duesenberry 1960: 233

The extreme differences in opportunities for people of different racial and social groups in South Africa is widely recognised. A sure indicator of the sharp divisions that characterise our society is the fact that South Africa has the highest Gini co-efficient in the world (McGregor 1994: 359). The accession of the African National Congress to power has made this legacy of inequality and polarisation the focus of state activities. Through the Reconstruction and Development Programme (RDP), development that targets the needs of the most disadvantaged sectors of South Africa's population has been identified as the key priority for the new post-apartheid state. This is distinct from policies which promote economic growth at any cost, in the belief that the benefits of such growth will 'trickle down' to poorer sections of the population.

The RDP proposes drawing previously excluded sectors of South African society (for example women and rural people) into the mainstream, and making them the beneficiaries of developmental activities. Other groups which have historically benefited from such processes in the past have included the white working class and rural Afrikaners (O'Meara 1978).

Despite the plans prepared by the new government, it is not clear exactly how the proposed programme will be financed. Because of its relatively high GDP, South Africa will not qualify for grants or soft loans from international lending institutions such as the World Bank or the IMF (Business Day 3 October 1994). With the exception of transitional assistance, South Africa will also be increasingly ineligible for other forms of development aid from the North, and will consequently rely on loans and other conventional financing instruments.

Important national resources were committed by the National Party government to 'free-market' enterprise in South Africa. The best examples of this are the Industrial Development Corporation (IDC) and the Small Business Development Corporation (SBDC). There was no commitment to using these resources in the 'public interest' - assuming that such a thing exists (MacKintosh 1992) - with the same types of criteria guiding these organisations as those which would have informed private investment houses. For example, the IDC argues that, because it is self financing, it need not behave like a public corporation, targeting the most disadvantaged or pursuing unprofitable activities (Business Day 3 July 1994).

There is widespread recognition of the urgent need for successful development projects in South Africa, but the ways of financing these were not clear, particularly while the RDP was simply an election manifesto rather than a programme which had to be implemented. Prior to the April 1994 election, social analyst Steven Friedman (1994) undertook an exercise in which he compared the economic proposals emanating from business and the previous state with those of the 'liberation movement' (meaning the ANC and other progressive political groups). He contrasted the Development Bank of South Africa's various proposals and the state's Normative Economic Model with the RDP and the report prepared by the Macro Economic Research Group (now the National Institute for Economic Policy). His conclusion was that there is a wide gulf between them: the former proposed liberalisation and deregulation, while the latter is premised on state intervention and ambitious spending. However, he went on to argue that 'even if there is conflict over economic policy there is wide consensus on the need for substantial development spending' (1994: 8).

Since the election, there is widespread consensus on the need for a greater national commitment to development. The differences that appeared so stark to Friedman before the ANC's accession to power have already become less noticeable. Before the election the private sector and development processes were two separate realms that were best addressed through separate discourses and by different people within the ANC: the urbane Thabo Mbeki could be relied upon to comfort edgy investors, while fiery trade unionist Jay Naidoo could speak to people desperately in need of the kind of assistance promised in the RDP.

This is no longer the case. There is greater recognition that if there is to be any point in investing in South Africa, greater resources must be dedicated to the poor who threaten political and economic stability. It is also recognised that the finance for such development will have to come from two interlinked sources: the reallocation of funds from existing public sector budgets, which, according to RDP commissioner for the PWV, Ben Turok, will in turn be used to leverage private sector sources of finance (Sowetan 28 September 1994). If development interventions in South Africa are to be successful and if a developmental approach is to take hold in a sustainable fashion, private investment in developmental type projects on a scale unknown in South Africa is going to be required.

This means that the private sector is not only going to have to finance black homeownership in areas traditionally perceived as high risk, but they are also going to have to finance less tangible investments with lower (or longer term) rates of return. As Minister Jay Naidoo puts it: "The private sector needs to shed its mantle of piety and omniscience and put its money where its mouth is. Permanent jobs must come from private sector investment in the productive sector. South African businesses' commitment to the RDP can't just be the transformation of their social responsibility programmes into RDP `fronts" (Sunday Times 6 November 1994).

The original RDP document argued that the `democratic government cannot fund the RDP without support from the private sector... [and that] the democratic government must modify regulations and support innovative financial institutions and instruments that will fund the RDP' (1994: point 6.5.14). It went on to claim that `if excessive risk aversion prevents them from taking up socially responsible investments, the democratic government should consider some form of legislative compulsion, such as prescribed assets' (point 6.5.15).

The slightly threatening tone of the initial document has been amended in the recently-released RDP White Paper: the market has been drawn into the centre of processes, rather than serving as an auxiliary engine, while any mention of prescribed assets and mechanisms for enforcing private sector participation have been dropped[1]. Generally, the RDP has become a more market- and private investor-friendly document.

The Star unsurprisingly supports the shift in emphasis: `the White Paper differs from the RDP pre-election document. The change is subtle but identifiable in the form of a shift in emphasis towards a formula that has characterised the world's successful economies: namely curtailing government's role in the economy and, by implication, greater freedom for the private sector to get on with the job of creating wealth for the nation' (23 September 1994). The shift is not only noticeable at the level of ideology, but also in the language that is used in the programme: `Naidoo is also learning an

[1] An exception to this was a warning issued by adviser to Minister Naidoo, Pierre Voges, that `legislation might be necessary to get the private sector involved in the RDP' (Business Day 3 November 1994). However, this was more of an appeal for innovative form of partnership than threatening prescribed assets.

appropriate new language: interspersed with the usual language of development (consultation, consensus delivery), he talks about business plans, adding value, fiscal control, change management and even `systematic performance auditing" (Weekly Mail August 19 1994).

This change in the orientation of the development sector, previously hostile to market forces, provides the focus for this project: will private investors take up the role required of them if the RDP is going to work? Will they put funds into potentially risky investments in order to assure South Africa's longer term future? Or are South African investors so used to placing their funds in safe and secure options like shopping malls in Sandton and Anglo American shares that they will not support the RDP?

The problem investigated in this project is suggested in the term `risk aversion': is investment in human and social development too `risky' to the private sector? Private sector investment in reconstruction and development is necessary for the RDP to succeed, yet the processes required for development to take place are not ones in which the private sector has experience or capacity. There are significant differences in the ways actors in investment and development understand their roles and responsibilities, leading to a disjuncture between the worlds of private sector investment and development.

In order to encourage an interface between business and development initiatives, the social dynamics of this disjuncture need to be examined. **This project looks at how actions in both development and investment operate, and what the constraints to successful cooperation between the two are.** The arenas in which these actions take place will also be examined. The international experiences of development as well as the RDP as a guideline for state development activity over the next five years will be drawn upon, while interviews with investment decision makers are coupled with a review of the financial press to gain a sense of how investors see their role and the future.

ECONOMIC SOCIOLOGY AS A FRAMEWORK

The literature used in this project draws primarily on that which has emerged around the sociology of economic life. As Granovetter and Swedberg put it, this body of literature represents `a recent and very exciting development: the opening up of the academic debate about the economy to include a genuinely social perspective' (1992:4).

The central arguments of `economic sociology', as presented by Granovetter and Swedburg, are the following:

* Economic action is a form of social action,
* Economic action is socially situated, and
* Economic institutions are social constructions (:6).

These authors trace a long and distinguished lineage for the development of what they call `economic sociology', drawing on the work of Auguste Comte, through to Emile Durkheim and Max Weber. While Durkheim sharply criticised economists' tendency to radically isolate their topic from everything social, he was never as concerned with economics as Max Weber. The most important contributions by Weber to this area were his books <u>Economy and Society</u> and <u>General Economic History</u>, both of which are still fundamental texts for analysts who wish to understand the socially produced nature of economies.

While other important sociological writers, such as Joseph Schumpeter, continued to write on economic matters, the divide between economics and sociology widened through the course of the twentieth century. Only the work of American authors like

Talcott Parsons prevented the two disciplines from parting ways altogether. Parsons' attempts to deal with the issue of social order (as posed by Hobbes) involved developing an `oversocialised' conception of man, distinct from the utilitarian tradition of which Hobbes was a part (Granovetter 1992: 55). Parsons' views have become increasingly unfashionable, and have been labelled functionalist by those who dispute the manner in which he sees people as `obedient to the dictates of consensually developed systems of norms and values...' (ibid).

The single most important attempt to provide a social understanding of economic issues in the latter part of twentieth century was undertaken by exiled Hungarian anthropologist, Karl Polanyi. In his seminal text The Great Transformation (1944), he argued that the nineteenth century ushered in an utterly new form of society, in which the `self-regulating market', itself a social and ideological construct, became dominant. Polanyi's key concern was the change from a social production system, in which the inter-dependence of different social groups was recognised, to the Speenhamland system, introduced in England in the 1830s, in which the market was not regulated by any mediating institutions such as community obligations. The Speenhamland system saw the introduction of `debtors jails', and removed the obligation of communities to take responsibility for non-productive members. His interest in this change led him to examine the social relations in which an economy is `embedded'. This notion of embeddedness is the central theoretical foundation of economic sociology, and forms a key concept drawn upon in the project.

Polanyi's emphasis on the social elements of business transactions is a very powerful critique of neo-classical approaches to economics. Neo-classical economics is based on the idea that economic actors base their actions on `rational choice in conditions of scarcity within an exchange-based market economy' (Lazar 1993: 6). Martinelli and Smelser summarise the assumptions made by neo-classical economists:

(a) the individual actor will behave in such a way as to maximise his or her material well-being, or utility, in economic transactions,

(b) buyers and sellers will possess full knowledge of the availability and prices of products, job opportunities, and other market conditions, and

(c) buyers and sellers, possessing preferences and full information, will act rationally on these.

These assumptions can be summarised as: (a) actors maximise utilities, (b) actors have full knowledge, and (c) the postulate of rationality (Martinelli and Smelser: 1990). Economic sociology rejects these assumptions, arguing that the maximisation of utilities depends on the context, which shapes opportunities and constraints; that rationality is socially defined; and that information is never complete.

Between the publication of The Great Transformation and the early 1980s, there were few advances in the field of economic sociology. However, in the decade since then, it has become crowded: Granovetter and Swedburg identify a number of different approaches to structuring the relationship between sociology and economics: Rational Choice Sociology which applies the assumptions of neo-classical economics to understand the decisions people make; New Economic Sociology; Socio-Economics; Psycho- Socio- Anthropo-Economics which aim to develop a multi-disciplinary approach to economics; and Transaction Cost Economics (1985: 4).

In his article `Economic Action and Social Structure: The Problem of Embeddedness' (1985), Mark Grannovetter successfully enlarged on the idea of embeddedness using the idea of social networks which connect economic actors with one another, thereby highlighting the nature of economic transactions as inherently social events. He also draws attention to the importance of understanding social relations if sense is to be made of many economic transactions.

The notion of embeddedness is crucial to this project and its findings. Development is a concept which targets the poor, the disadvantaged and the marginalised, while investment is a process undertaken by those with resources to spare in an attempt to generate a return. It will be shown that a yawning chasm exists between the social context of private investors and that of development actors, and that this is the single most important inhibiting factor preventing successful cooperation between the two sectors.

Lazar (1993) suggests that neo-classical economics is fatally damaged because it fails to treat economic action as social action, which is inextricably linked to power relationships. The focus of neo-classical economics on the individual freedom of contract obscures such power relationships, which are a feature of all social action. The strength of the analysis offered by Karl Polanyi is that he posits economic action as 'embedded, and enmeshed in institutions, economic and noneconomic' (in Granovetter and Swedburg 1992: 34). Polanyi's argument in The Great Transformation is that 'the outstanding discovery of the recent historical and anthropological research is that man's economy, as a rule, is submerged in his social relationships' (1957: 46).

Lazar argues that the 'sociological concept of embeddedness implies that, when it exists, the economist's economic rationality is the product of a whole series of social and ideological conditions' (1993:6). This project identifies some of the tensions present in the relationship between the private sector and development practitioners, arguing that the context from which investors emerge limits their ability to interact with development projects (and vice versa), not because they are not committed to the ideals and goals of development, but because the processes and practices required for development are so far from their own experiences that they have no reference points to assist them in their interactions.

This approach to economics is controversial: in one of the analyses of South African capitalism, Belinda Bozzoli argues that the need to generate profit is an objective reality. Despite the ideologies and hegemonic forces designed to legitimate profit maximisation, she argues, there is an immutable, 'bottom line' - the unquestionable imperative of profit generation (1975). While it must of course be conceded that the bottom line does exist, the approach taken here is that it is socially constructed, and that profits can be generated by means which do not necessarily have to accord with investment managers' views of what is rational.

Investment in a low-return housing project may not seem rational to rapacious global investors keen to see the highest return on their capital, but to township residents who hope their children will benefit through the provision of affordable housing, investment in such an instrument would seem highly rational, particularly if it was through a pension or provident fund in which they were shareholders. Another example is that of a member of a small ethnic group who buys inputs from another member of the same group, despite a higher price. The value of established networks and the strength of kinship ties in that transaction make it a rational one, because profit is not the only variable considered.

OTHER WRITINGS ON PRIVATE SECTOR PARTICIPATION IN DEVELOPMENT

Management writers have addressed themselves to the question of private sector participation in development. For example, the Innes Labour Brief, a management-oriented briefing publication deals regularly with development issues. (It is no coincidence that its publisher was formerly a prominent member of the Sociology Department at the University of the Witwatersrand.) The limitation of this kind of publication is that it is driven by its subscribers, and prevented from being too critical of the people who pay substantial amounts to receive intelligence and advice.

The other group which has focused on the intersection between private sector investment and development is the growing group of ethically managed financial institutions and their policy bodies. The number of such institutions is limited in South Africa, with Southern Life and the Community Growth Fund (managed by Syfrets) being the two only real investment instruments available to small private investors. Writing on the issue by these institutions is limited.

In Britain, the providers of ethical financial services to individual investors and larger corporate investors generate an amount of research and analysis on these and other issues. In the United States, there are many pension funds which operate in an ethical fashion, determined by their members wishes. The Pensions and Investment Research Centre based in the UK, as well as the scarce literature produced by South Africans such as Anthony Asher (1990; 1991), head of Wits' Actuarial Sciences department and Chairman of the Community Growth Fund are some of the few resource available to scholars interested in the area of ethical investment.

The publications these organisations generate are often interesting but utilitarian: they concern methods for quantifying ethics, and have a purpose, such as evaluating performance internal to a prospective recipient of investment - the whole field of corporate governance is a central concern to ethical investors, often leaving aside the question of their ability to interact with other agents[2].

[2] The King Commission which released its report in November 1994 investigated the issue of corporate governance. Based on the UK's Cadbury Commission, it proposes a system of self-regulation through peer pressure, which seems optimistic given South African business's tradition of collusion and secrecy.

RESEARCH METHOD

This project was prompted by the view that the East Asian model will not work for South Africa, and that more consensual forms of decision making, with a greater role for the private sector in public development is required. The East Asian model is of a repressive state heavily involved in buttressing an intense, private sector-led industrialisation drive. This model is unlikely to take hold in South Africa. It is undemocratic and expensive, neither of which the new government can afford. If development is to last, it must be seen in the same way as investment: a long term commitment to a process which offers a certain return over a certain period.

In undertaking qualitative research, a number of different research strategies always present themselves, and it is a matter of selecting not only that which will deliver useable findings, but also one which is implementable. In addition to this, the research method must be appropriate to the anticipated findings. The principal difficulty associated with this research related to problems in gaining access to respondents and institutions. The investment sector is concerned almost exclusively with returns on capital, and time is seen as a scarce commodity that cannot be squandered on activities unrelated to meeting the demands of the bottom line... such as participating in interviews with students of sociology.

In this case representivity was not the primary consideration. The project did not aim to come up with a verifiable, hard set of data to be used to measure the likelihood of private sector investment in development. Instead, the absence of research on which the project could build made it necessary to accept that the findings would necessarily be of a tentative and exploratory nature.

While a case study was initially planned, two factors made this a less feasible research method:

* difficulties with access made it virtually impossible to use a single investment house as a research subject. At the time the research was initiated (prior to the election) the socio-political environment was highly charged and tense. It can only be assumed that fears of exposure for discriminatory investment practices, such as redlining for example, made investment houses quite so reluctant to expose themselves to scrutiny. Over a number of months, unsuccessful attempts to secure a case study ultimately led to the abandonment of this as a research method.

* It became apparent during the attempts to secure a single case study that this in fact was not the best approach to identifying the prospects for private sector investment in development. Investment is quite such an idiosyncratic activity, with different firms using very different types of services and functioning in unique ways. These are usually moulded by their individual client needs, leading to the conclusion that a broader look at the investment community would be more useful than an analysis of a single institution.

For these reasons it was decided to use a `triangulated' research method, using three methods. The first of these was interviews with three groups of investment decision makers from different institutions (rather than looking in-depth at a single institution). The three groups of investment decision makers were:

* merchant bankers
* investment managers for life offices
* stockbrokers and stockbroking analysts.

Sixteen of these interviews were undertaken using a semi-structured interview schedule. Each interview lasted between forty five and ninety minutes. Respondents were identified using a snowball method[3] - a more systematic way of selecting respondents simply was not possible given difficulties with access, and in hindsight the strategy seemed to have been effective enough to generate useable findings. The sector is in fact so small, that many of the respondents were able to offer insights into other respondents, information which was often not volunteered[4]. A further six interviews were undertaken on an unstructured basis, looking at general issues, such as corporate social investment and public affairs from a corporate perspective.

Attached as Appendix One and Two respectively are a list of the respondents and the interview schedule.

Giddens has argued that interpretive sociology has failed to conceptualise institutional analysis adequately (1976: 158), and that `this has caused a number of problems in relating meaning to action, and in distinguishing between intended action and unintended outcomes' (Chataway 1992: 48). The question this leads to is whether talking to managers and decision makers and trying to deduce how they make their decisions

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[3] The technique for identifying respondents was not only a `snowball' one: a confidential list of participants at an ANC-convened investment conference was discovered by the researcher, and this generated approximately one third of the respondents. These respondents then suggested others and so on. This is mentioned because it could imply that many of the respondents were sympathetic enough to the ANC to participate in one of their functions prior to the election. One could conclude that if the findings have any general bias, it is a positive one and that the picture painted in this research report may be overly-optimistic.

[4] An example of this is that one of the respondents, a prominent analyst at a leading stock broking firm claimed he was emigrating to Australia because he felt affirmative action would reduce his children's opportunities. Another respondent informed the researcher that in fact he was leaving the country following the traumatic murder of a close family friend outside his office in a criminal incident.

will reveal their 'true' motivations. However, interviews still represent the most accessible form of deducing these motivations.

The second leg of the research involved analysing what 'development' means in the contemporary South African context. This was undertaken by reviewing international literature on the issues, while the nature of the local debates is introduced by looking at the Reconstruction and Development Programme, the most systematic statement of development priorities and methods ever offered in South Africa. Nuances and subtleties in the RDP could be identified by looking at differences between earlier drafts, the final version of the document published by the ANC and comparing all of these with the White Paper.

Finally, the third leg of the research method was a comprehensive scan of the press, looking at all coverage of RDP and development issues, with particular reference to any coverage of business participation in the RDP. Publications covered in this scan included the Business Day, the Sunday Times, The Star, Finance Week, the Financial Mail, the Weekly Mail and Guardian, the Citizen, the Sowetan, as well as one-off publications put out by organisations. Prospectuses and brochures put out by broking firms, banks and the other institutions as well as their briefing documents were also used. Submissions made by organisations, such as SACOB and BIFSA, to the RDP, were also reviewed.

The press review was useful in identifying shifts in development debates, particularly with regard to how the RDP has changed its status from a party political election manifesto to what Professor Jackie Cock calls its elevation to 'Talmudic status' (public lecture: September 1994). Even Jay Naidoo says that 'the Reconstruction and Development Programme has become the mantra of South Africa'! (Sunday Times 6 November 1994).

THE RESPONDENTS

Sixteen respondents were interviewed according to a semi-structured interview schedule, in addition to six interviews undertaken on an unstructured basis. These last interviews dealt with corporate social investment and general public affairs issues in big corporations.

In order for the interviews to have real meaning, it was necessary for the respondents to be senior enough to be decision makers. This made it more difficult to gain access to appropriate people, but over time this was possible. (A list of respondents and their positions is attached as Appendix One.) It was anticipated that the more senior respondents would generate more useful findings. This was not the case: for example the Anglo American respondent was very senior, but also very predictable and cautious in his responses. It became clear that the more useful responses came from people with some experience outside the investment sector, such as Mr Daan Waandrag (see below) and political analyst, Mr Gary van Staden.

The investment decision makers interviewed were all white men, mostly from an English-speaking background, but approximately one third were Afrikaners. The fact that all the respondents were men was not coincidental: the sector is male-dominated, and it is rare to find women employed in senior investment posts. (Of the three women approached for interviews, none was prepared to participate.) It also became apparent that the few women involved in senior investment roles tend to be active at the head offices of the financial institutions, which are mostly in Cape Town.

In all, during the research, seventeen corporate offices were visited. The culture of these institutions is very much as one expects it to be: women occupy secretarial and support posts, while blacks are found mainly in driver and messenger functions. Every interview respondent wore a tie, and generally the atmosphere in investment houses is of discreet wealth. The workplace culture is very formal and rigid, while security measures are often startlingly thorough.

The personal backgrounds of the respondents are not surprising: mostly they have attended 'good' government schools, studied either at the liberal English campuses or at Pretoria or Stellenbosch universities, and have taken degrees in commerce. More details regarding the relationship between their views and their personal backgrounds are provided in the body of the report.

One of the respondents, Daan Wandrag, is worth mentioning individually. He is the Director of Theta Securities responsible for Socially Desirable Investments (SDI). Mr Waandrag has been involved in the structuring of nearly every big SDI deal in South Africa, and it is therefore worth looking at his background in some detail. He described his background as follows:

> 'I was born and bred in the heart of conservatism, in a small town called Kuleni where I matriculated in 1969 from Kuleni Hoerskool. I went to Tukkies where I did a B. Juris, and I have done various other diplomas since then. The most recent was a Higher Diploma in Company Law at Wits Business School. No, I didn't do a CA - in fact I am the only non-CA in our company. After my studies I started as a magistrate in Pretoria, and after 18 months of it I resigned. I joined Barclays as a teller and worked my way up and spent 15 years there. I worked in every aspect of the bank, and was part of their Executive Training Scheme, and participated in their internal audit. I was transferred around: from Graskop to Pretoria, I landed up in Treasury in Johannesburg, then in Research and Development into new financial products, and in 1988 I joined UAL.

The interesting point about Mr Wandrag is that he is one of few respondents involved in the finance sector who has experience outside of business, even if he does not come from a liberal background. This must have some bearing on his unusual ability to mediate between the development and business communities. This substantiates the general argument of this project: that the social context in which investors are embedded is so far removed from that of development, that intermediaries are required. Mr Wandrag is able to be quite such an effective intermediary because of his diverse experience - he is not (only) embedded in the world of country clubs and holidays at Plettenburg Bay.

THE STRUCTURE OF THIS REPORT

Swedburg, Himmelstrand and Brulin (1987), in their paper 'The Paradigm of Economic Sociology - premises and promises' provide a very useful framework for implementing an economic approach to sociology. They examine neo-classical theory and economic sociology respectively according to seven points of divergence. These are:

1. the concept of the **actor** - the separate utility maximiser versus the social actor;
2. the arena of **action** - the separate economy versus the social economy;
3. types of economic **action** - formal rationality (with emphasis on choice and maximisation) vs social rationality and social economic actions in general
4. the results of economic **action** - equilibriated harmony versus tension filled interest struggles
5. view of the **analyst** - objective outsider against an objective insider
6. concept of **time** - stationary and adaptive time concepts versus a socio-historical time concept
7. general scientific **method** - predictions and explanations based on radical abstractions against those based in empirically adjusted abstractions.

Swedburg *et al* offer a set of lenses through which to examine the economic realm - one which focuses on actors and actions. This way of understanding economic actions from a social perspective is used in this project in a simplified form to analyse the findings of the research. Confronted with a rich set of data, Swedburg et al offered a way of interpreting it: by focusing attention on two of the key questions asked in economic sociology: who acts in the economy, and what do they do? The answers to these questions offer a `socially textured' view of economic actions that could inform policy and planning.

Based on the framework offered by Swedburg et al, this report discusses the actors and actions involved in the investment process in a way that shows how those actors see their own actions. The structure of the research report reflects the central questions asked in the research:

* If the state, market forces and the third sector are the three key actors involved in the development process, how do investors see them and the prospects for cooperation between them?

* What are the arenas, types and results of action undertaken in investment and development? How do investors particularly view those actions, and do they anticipate being able to collaborate with development actors?

The dual focus on actors and actions provides the structure of this report[5]. Chapter Two provides an overview of the research and sets out the general arguments. Chapter Three

[5] The distinction between actors and actions is often difficult to apply in practice: the market, for example, is treated here as both an actor and an arena, which may be slightly confusing. This approach was necessary since so much is ascribed to the market,

looks at development and investment actors, and how investors view the possibilities of fruitful cooperation across the two sectors. Chapter Three looks at where actions take place, what those actions are, as well as their results. Chapter Four offers some concluding remarks.

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that it becomes both a source and a site of action. Rather than seeing this as a limitation of the study, it should be viewed as drawing attention to the enormous power ascribed to market forces, itself an interesting finding.

CHAPTER TWO: GENERAL OVERVIEW

The general finding of this report is that while the private sector is committed to development, and is supportive of its general objectives, the differences in social contexts make it virtually impossible for investors to understand how development operates and what its dynamics are. This draws attention to the usefulness of the concept of embeddedness: private sector investors inhabit a world so removed from that of development, with its gritty problems of water and sanitation, capacity building and poverty, that they simply do not understand the development sector. At the same time, development actors emerged as part of a movement which saw itself in opposition to business because of its perceived closeness to the apartheid state. The suspicion and mistrust inherent in the development-private sector relationship is one of the primary constraints on future cooperation.

Some convergence is taking place: market forces are mentioned more often in RDP plans, such as the White Paper and the various discussion documents, while development issues are increasingly being addressed by business: the JSE proposes the structuring of a new development board on which certain kinds of developmental businesses can be listed, while publications like Finance Week now have a regular section devoted entirely to development. This growing together is important and encouraging, but the chasm remains: investors tend to be wealthy white men; development actors are more likely to be blacks from a disadvantaged background. This simple difference is critical.

The conclusion drawn here is that there is a need for mediating institutions which can structure relationships between investors and development actors. One kind of agency which plays such a role is Theta Securities. Formerly associated with UAL Merchant Bank, it is now entirely independent and acts as a `financial boutique' operating in the wholesale end of the financial market. Its clients are generally institutions and parastatals, and the areas in which it works are strategic planning, offshore financial management (especially structured debt swaps) and socially desirable investment. It structured both Electrification Participation Notes issues for ESCOM, and was active in putting the Sugar Bonds and the CHIPS issue together. The enormous success it has already enjoyed has clearly been achieved because of its ability to straddle the huge divide between the two sectors.

INVESTMENT AND DEVELOPMENT: THE SOCIAL CONTEXTS

The processes by which development is undertaken has gone through a number of stages, from the massive, state led and internationally financed dams, roads and airports to more delicate and painstaking processes such as capacity building and Participatory Rural Appraisal. A consensus has gradually developed over the years on the need for communities to be centrally involved in decision making. There is also increasing recognition of the fact that making resources available to people does not help them if they do not have the capacity to manage those resources effectively.

Amongst the emergent development principles and trends is that of consultation: more energy is put these days into assuring that projects are appropriate and what target communities desire than was the case before. Consultation systems are used to develop priorities, rather than assuming that development professionals always know what local people want. Another trend which is fast becoming a development principle is that of quantification: as `indicators' become an important part of all development interventions, there is a growing desire to be able to measure impacts and assess the contribution of donors to outcomes. Comprehensive planning systems are used to prepare development programmes: ZOPP (Objectives Oriented Planning) and the Logical Framework Approach are two of these systems (NORAD 1991)[6].

For development to succeed, painstaking processes of consultation, and initial assessment need to be undertaken. Careful planning and prioritisation need to take place, with education and training often used as complementary processes required to ensure that project beneficiaries are best placed to make use of the goods and services delivered to them by development authorities. This contrasts with the world of investment, where time is of the essence, and decisions need to be made more quickly.

Investment decisions rely on the individual discretion of investment managers, although some institutions are more decentralised than others. To reach the position of senior investment manager requires extensive experience in a position with less authority, and would generally also require a postgraduate degree (usually an Honours degree; Masters degrees, except for MBAs, are less common) in finance, investment or business administration. Having reached the senior post of investment manager, however, one is expected to be able to make decisions and act decisively. 'Once established, investment managers can do what they like, but if they mess up, they're out' (Interview: GS). Investment managers would have had to prove themselves over an extended period of being capable of exerting such powers before they are granted.

There is usually a supervising body, such as a Board of Directors, which has overall authority to ratify investment decisions. According to the respondents, it is unusual for

[6] These systems involve drawing up problem statements, turning problems into objectives, and devising activities that meet those objectives. Quantitative indicators are then devised which enable donors to assess performance. A central objection to such planning systems is their stress on these quantitative indicators, which mask social and qualitative issues.

decisions to be contradicted once they have been made. This seems to be more a result of the general conservatism of the decisions which get made, rather than any high level of trust amongst Boards of Directors. It is assumed that one would not reach that position unless one is perceived to have the skills to do the job effectively.

The methods for making investment decisions in the development area are the same as those used to make other investment decisions: the manager responsible has a great deal of discretion, and would have to be able to motivate for his support. However, having made the decision to support a developmental project, he would be unlikely to be contradicted.

> 'Private investment in development projects has many of the marks of ordinary commercial transactions: we don't trust middlemen and the deals which succeed are usually kept very confidential. The bulk of our best work comes from us going out and finding it ourselves. Take for example the Electrification Participation Notes: We heard ESCOM was thinking of putting something like this together, we listened to people, contacted them, went to see them, and designed something' (Interview: DW).

Crucial to making investment decisions is the provision of information. Most stockbroking firms run their own research divisions, all of which focus on market performance and other factors internal to a company. The information which is generated is presented in the form of prospectuses and briefing documents, and is used by investment managers of institutional investors, such as life offices, most of which do not maintain their own research facilities. Only one broking firm maintains its own political analyst, and subcontracts his services to a number of other users, although a number of broking firms draw on journalists and analysts on a free-lance basis.

Political analyst Gary van Staden, argues that while investors think they have enough information, they often simply do not:

> `they think that performance and quantitative statistics are sufficient. There is a reluctance to give political analysis much significance - it's just not seen as important. Market performance shows that those companies which use political analysts outperform those which do not. Many feel that using a political consultant once a year is enough, but its not' (Interview: GS).

As a case in point he mentioned an insurance company which underwrote riot cover in Mmabatho shortly before the demise of the Mangope administration, costing the company millions through payouts caused by the widespread rioting.

All bankers, investment managers and broking analysts said they read an enormous amount, and that there was always pressure on them to read more. They read all the financial publications, such as Finance Week, Financial Mail, Business Day, The Economist, as well as more specialised journals. Several of them mentioned reading The Weekly Mail and Guardian, and said that the other major source of their information were the prospectuses and other types of information put out by brokers and agents. Reading and information gathering is an important component of the work undertaken by investment professionals, and it is treated as hard, serious work to get through a certain amount of printed material every day.

Only two of the respondents felt that there were any problems with the provision of information. Of the two, one was involved in putting SDI deals together, and the other was the political analyst quoted above. In particular, reliable information relating to the demographic situation is particularly hard to find `Solutions to problems are only as good as their inputs, and often those inputs are simply not up to standard' (Interview:

DW). The other respondents generally indicated that the problem was an excess of information, which they find difficult to wade through.

Information-gathering is very competitive: a competition is run for the best researcher in certain fields by the Financial Mail, and it is a competitive environment in which the speed with which information is disseminated is crucial. Recently a number of foreign stockbroking firms, particulary British ones, have entered partnership arrangements with South African broking firms, primarily in the interests of sharing research capacity (Business Day 19 September 1994).

PRESCRIBED ASSETS

One method of encouraging private sector investment in development is the use of prescribed assets. The early version of the RDP explicitly mentioned this as an option (RDP: 58), but has dropped references to this in the White Paper. Every respondent was opposed in principle to prescription, but about a third were more realistic about the need for prescription, and were fairly sanguine about it so long as all private investors were disadvantaged to the same degree. `Prescribed assets never achieve their objectives: they simply create further distortions' was the typical response (Interview:SB).

The strongest basis for opposition to prescribed assets was that it distorts the effects of the market: `anything which is prescribed has a bad effect: you must let the market decide' (Interview: MP). Prescription was widely seen as a form of indirect taxation in a society in which individuals already endure a heavy tax burden.

> `In a nutshell, it's indirect taxation and even worse, it taxes the people who are saving for their retirement. And look how many union-controlled provident funds there are, with more being set up all the time. These are major holders of wealth for workers, and shouldn't be taxed. There is a willingness to invest in SDI projects, but we lack projects and channels for collection and distribution. We should wait until there is a reluctance to invest before we prescribe. There is room in any portfolio for fixed returns, so there is no need to force people to invest in funds with a fixed rate of returns' (Interview: DW).

Another argument against prescribed assets was that it is unreasonable to expect private citizens to underwrite government projects - this was seen as a central government function, not a role to be played by the private sector (Interview: PT).

The argument that if innovative instruments are established then investors will be found for them was repeated on a number of occasions, but is often a cynical rejoinder, rather than a seriously held view. One analyst earnestly warned of the distorting effects of prescription, and argued strongly that if instruments were established, investors could easily be found. On being asked whether he would advise his clients to invest in a government floated housing bond, for example, he grinned and replied 'I wouldn't put a cent into it' (Interview: MP).

Despite the opposition to prescribed assets, there is a degree of acceptance that they are often necessary.

> 'No-one likes prescription of any kind, but in my view that's going to be the only way to get the buggers to do anything. Experience shows that if you want them to do things of their own free will, then nothing happens. These things have to be put into law. Current opinion in financial institutions is that prescription will happen, and while they oppose it, they see it as preferable to some of the other more frightening options, like nationalisation' (Interview: GS).

He suggests that fear of prescribed assets could be used as a lever to prompt investment in key sectors.

Several respondents argue that although they oppose prescription generally, they support the 'equal disadvantage' component of prescribed assets: 'if everyone is forced to have a certain proportion of prescribed assets, I won't be outperformed as I would be if prescription applied to only certain types of institutions' (Interview: JR).

One merchant banker argued that `we may have to accept prescribed assets, but at least we want to be able to have some choice of the areas we support. It's a bit like charity: if you have contribute to a charity, then at least you want to be able to choose which one' (Interview TB).

An alternative to prescribed assets suggested by Daan Wandrag of Theta Securities is a focus on an `enabling environment', in which regulatory obstacles are removed and risks associated with certain projects are reduced through the provision of guarantees or by the state putting equity or risk capital into a project. He argues that investors will then be more responsive. He points to the ESCOM issue as an example in which an equity issue was synthetically created, and talks about a certain level of comfort below which investors will not come in on deals.

SCALE AND TIMEFRAMES

In terms of scale and timeframes, fundamental differences exist between the worlds of investment and development. Investors take a long view, while development must be seen to deliver in order to be recognised as effective. Delivery of services also often requires small amounts of money in order to effect improvements to peoples' lives, while to investors, sums of under a million rand are often meaningless.

Jeremy Roberts, senior investment manager of African Life says that the minimum investment must be for at least five years, so market indicators, released on a quarterly basis, are not that important to the investor in life assurance. For the investment manager, he argues, it is trends, not variables that are important. This time horizon can be contrasted to that of development interventions, where five years is seen as a medium to long term project. For investors a long term project is 30 - 50 years, while one respondent suggested that Japanese investors take a 200 year view on their investments!

(Interview: MB). It also was made clear that large South African investors, like Anglo American Corporation, take a very long view of their investments (Interview: JB). This difference in time frames and scales contributes to the disjuncture that exists between the worlds of corporate investment and development[7].

The speed with which decisions are made also divides the investment world from that of development. The ability to take decisions quickly is an important hallmark of private sector investors: 'consultation slows decision making down, and slows performance. Board members are given information and if they don't respond within 24 hours, we assume they approve' (Interview: JR).

Within the investment sector, there are also differences between the time frames of the private and public sectors. Head of Socially Desirable Investments at Theta Securities says that

> 'in the public sector it's not unusual to take 18 - 24 months for a deal to go through, because the decision-making systems are slow and tedious. In the public sector there's been a shift from a top down approach to development to a bottom up one, and the consultative process takes much longer. I'm not saying it's a bad thing, but that's how it is. The private sector is much quicker. There's also consultation, but people are empowered to make decisions. Generally these guys are more decisions oriented'.

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[7] This contradicts a lot of work on development, particularly that on human resource development, which argues that helping people to fulfil their potential is a long process which could take generations to occur (see for example Joffe 1993). The point is that South Africa's political imperatives give development in this context a very short time horizon comparatively. In an ideal sense, development is as long term a process as any investment.

This must be contrasted to the world of development, where the need for extensive consultation has become a recognised principle. The need to promote community participation in all phases of project planning and implementation through systems like Participatory Rural Appraisal is becoming recognised. This once again highlights the differences between the two ways of operating.

The scale of investment separates the development sector from that of investment: for example, for UAL Merchant Bank to seriously consider an investment option, it needs to be able to put R50 million into a company without causing liquidity constraints or buying the whole enterprise (Interview: TB). Head of investment at Federated Life says

> 'If someone comes to see me about an investment of R50 000, I can't help him, I can't think in those terms. But if you need fifty million - then we can talk. Anything less is too difficult for me to manage' (Interview: DP).

For a community whose greatest need is water, R50- to R100 000 could make all the difference, yet investment managers cannot think in such small currency. What this points to is the fact that investment in people through education and training, the least costly and most effective form of developmental investment is unlikely to be able to access funds from private sector investors, unless they are prepared to think in terms of establishing enormous programmes and institutions.

This suggests that there are few options for the big investment players in the development sector, and the few that do exist would have to be in infrastructure and capital equipment. The recurring costs would have to come from other sources, and since finance to cover these would not be assured, they would be bad investments. (In any case, financing such development projects has and will continue to be the domain of the Development Bank of South Africa.)

An important factor which influences the time frames used by investors is the quarterly orts issued by unit trusts and the listings which follow by a University of Pretoria investment analysis institute.

> 'The intense pressure on funds caused by the regular reporting periods makes it difficult to make strategic decisions. In the East profitable areas are identified and funds pumped into them long before there is a competitive return. This is difficult to do in a country where performance is audited so frequently' (Interview: MP).

CORPORATE SOCIAL INVESTMENT

A deeper understanding of corporate social investment (CSI) is required because it is the one development area in which the private sector has been active. By getting an overview of the sector, one can gauge whether it was a fore-runner of more sustained participation in development, or whether it continues to be a strategy for ensuring little more than the long term viability of a capitalist system, as Mann suggests (1989). CSI has been one of the ways through which the private sector has tried to make its commitment to addressing social problems visible.

Trends in CSI include the establishment of CSI Trusts: SAB recently formed one called Masibambane Trust which has 50% management and 50% union representation. Premier has used this approach for some time, but based on a committee, not a trust. While this type of initiative is supported in many quarters, there are some more cautious voices to be heard. It has, for instance, been suggested that worker representatives on CSI Trusts tend to be conservative and self-serving (Interview: HM): unless projects are directly serving the workforce, they often do not get supported, leading to a diminished national profile for CSI grantmakers. The trend to CSI trusts should not therefore be read as a commitment to development, but more as commitment to equitable labour relations, so that workers in a dispute with management cannot use the companies CSI programmes against them, as occurred in the recent Pick 'n Pay strike (The Star 28 September 1994)

The establishment of the South African Grantmakers Association (SAGA) looks to be an interesting initiative. The aim of the Association is to play a networking role, with Northern NGOs as well as South African corporations as members. The decision by some of the largest CSI sources, such as the Anglo American and De Beers Chairman's Fund not to participate in SAGA suggest that they are wary of losing control over their funds, and furthermore that they do not favour an open, coordinated use of the funds (Interview: HM). This would militate against one interpreting the formation of SAGA as a widespread commitment by the private sector to using CSI funds to the best advantage, even if this is the intention of some of the members.

The absence of any comprehensive information on the sector is a serious shortcoming (Interview: BW). The lack of transparency on CSI issues would undermine any idea of the funds being used in an open, developmental way. There has been a move away from the `benevolent giving' approach to one which is constrained by systems and procedures. This ensures accountability, but is also quite stifling (Interview: BW). Linked to this is the tendency to work with communities close at hand (`localising') and with whom one's workforce has a connection (Interview: NS). Enlightened self interest is starting to characterise certain aspects of CSI: pharmaceutical companies for example are starting to target health care as their own area of support, rather than their traditional shotgun approach (Interview: HM; KC).

The relationship between corporate strategy and CSI seems to be an underdeveloped area of analysis: the impression gained from the interviews was that few corporations have a sense of why their CSI role is important, beyond that it is an investment in the future. This is connected to whether support should target projects in which the corporate donor has no direct interest (disinterested), or whether there should be an element of `strategic self interest'.

Mann argues that `in contemporary South Africa, the limited power of the state to legitimate the social order has led business to shoulder a part of this responsibility through its involvement in corporate social responsibility (1989: 5). He concludes that social responsibility interventions are `primarily political interventions aimed at the protection of capitalism. Indeed, they are the closest approximation that exists to a coherent and long term political strategy on the part of the private sector' (1989: 17).

Despite the changed political context, one would have difficulty contradicting this conclusion. CSI programmes do not indicate that the private sector is preparing to become involved in development in any big way. In fact, some respondents argued that CSI spending should NOT complement the RDP: Dr Nick Segal of JCI for example argues that corporations pay taxes, and getting them to fund RDP projects is in effect double taxation (Interview NS).

In terms of the methods used in development and investment, it can be seen that there are serious differences in the way that the two sectors work, particularly in terms of their time frames and the scales of their operations. Consultation and accountable decision-making characterises successful development, while a preparedness to make decisions quickly and ruthlessly characterises successful investment. This does not necessarily mean that they are not compatible, but rather suggests the need for intermediate institutions to play a brokerage and facilitative role.

CHAPTER THREE: ACTORS IN INVESTMENT AND DEVELOPMENT

This chapter will look at the nature of actors in development and investment respectively. It will be argued that in the development and investment sectors in South Africa, the role of the state and of the market are seen in very different ways, but that in certain instances the two approaches share a common ground on which there is agreement on fundamental aspects of what is needed for economic management.

In development thinking, the state is prioritised as the institution with final responsibility for delivering basic goods and services, while for the business community state involvement is regarded negatively. Within this general finding, variations will be highlighted: for example, free market ideologies are more widely supported amongst less experienced investment professionals, while older business people are less hostile to state activity. The pervasive spread of market relations into all spheres of life has impacted in development too, and this is one of the ways in the two sectors are becoming more compatible. At the same time, there exists a subtle understanding amongst more experienced business people of the need to take a long view of investment by investing in development.

ACTORS IN DEVELOPMENT: THE STATE

With the end of the Second World War, the key institutions charged with the task of maintaining peace (primarily by ensuring economic growth) were based in the modern nation state. This included the international organisations established at Bretton Woods (the World Bank and the International Monetary Fund), which were also rooted in the state, given that they were constituted with states as their members. As a discipline, 'development' therefore emerged with a specific actor in mind: the state. For this reason if one is to look at development in the early post war period, one is to a certain extent examining the actions of the state as the key player.

Development interventions as a separate area of activity emerged as part of the post-war attempts to have the state play a regulating function. This involved ensuring that bare minimum living standards were maintained, with the organs of the state, and particularly its social service departments, playing a leading role.

Approaches which prioritise the state drew on a structuralist understanding of society, in which the structure and shape of society is seen to strongly affect what outcomes are possible. The first structuralist to look at development issues were economists associated with the United Nations' Economic Commission on Latin America (ECLA) which undertook a comprehensive examination of the Latin American situation. Their focus on production led them to argue that external disequilibria and the specialisation of production in the periphery led to a situation in which terms of trade tend to move against the interests of peripheral countries (Bell 1989). The structuralist' jaundiced view of markets and their structural tendency to inhibit growth in peripheral countries and bring improvements in the living conditions of the masses of the population led to an emphasis on the state: if it had managed to play a leading developmental role in the Second World, the argument went, it could do the same in the Third.

The conclusions of the leading theorists of the age suggest that to them the state could be all things the market was not: for both Prebisch and Singer (Singer 1989), if the state led industrialisation, it would enable Third World countries to break the cycle of reliance of imports from the Industrialised developed world. Alexander Gerschenkron, in his famous formulation offered a paradigm of development in which lateness was a key issue: the later a country industrialised, the greater impact a certain number of variables would have, while certain other key pressures would also increase accordingly (Gerschenkron 1962).

The economic boom of the 1960s was the appropriate time for a realisation that while economic growth was taking place at an unprecedented rate internationally, the world's population was not enjoying the benefits of this growth equally. South Africa of the time is an excellent example: while growth rates were amongst the highest in the world[8], South Africa's black population was suffering one of the most brutal and repressive periods in its history (Moll 1990). Even though these theorists applied concepts drawn from classical economics with due care, development was to them still an economic matter, which could be evaluated with reference to changes in Gross National Product. Amongst the work which challenged this position was that of Dudley Seers and his `Basic Needs Approach' which challenges the argument that development and economic growth are identical concepts (Garcia-Bouza 1980).

Seers, in leading structuralists away from a narrow economistic understanding of development pointed to the serious negative effects that economic growth could have on certain social groups, and drew on examples from Brazil, Puerto Rico, Pakistan and Iran to make his case (Seers 1972). Rather than simply concentrating on economic growth, he argued that the realisation of human potential should be the objective of development: the meeting of physical necessities, employment, participation in government, equality,

[8] Moll argues that South Africa's growth was not particularly startling during the 1960s (Weekly Mail and Guardian 25 November 1994) and that had South Africa not pursued the apartheid policies of the era, our economic performance would have been even more startling, suggesting that racial and political inequities acted as a dampener on performance (Moll 1989). While these arguments may be appealing, they are ultimately counter-factual, since they cannot be disproved, and are therefore of limited use.

education and economic and political independence were amongst the factors that Seers identified as constituting the meeting of human potential, based on the argument that economic growth is a necessary but insufficient condition for development. To Seers the primary agency responsible for developing this human potential continued to be the state, which for the purposes of this project makes him one of the long tradition of theorists for whom development was an essentially statist project.

Another set of structuralist to look at development issues were the `dependency theorists': radical Latin American scholars who implicitly accorded the state a central role in their theories by basing their analyses in the concept of the nation state. They argued that it is only by severing the ties of dependency with the advanced industrialised countries (AICs) that self-determination in Latin America would be achieved. Drawing extensively on the work of Andre Gunder Frank, the notion of an international division into a core and a periphery once again became current.

Drawing on Frank's argument that development is most successful when the connection between core and the periphery is weakest, development became equated with ideas of national independence and self sufficiency. Capitalist classes within the periphery came to be seen as the `comprador bourgeoisie', manipulated by the bourgeoisie of the AICs to exploit the working classes and peasants of the periphery, buying them off with material rewards and racist ideologies.

Sophisticated dependency theorists such as Cardoso and Falleto (1979) came to argue that the importance of peripheral countries' own domestic markets had been underestimated. Other theorists, such as Immanuel Wallerstein (1974) developed the idea of a world system, thereby extending his analysis beyond the nation state. This approach was substantiated by the work of Samir Amin (1974) who argues that within the world system, it is surplus extraction in the periphery which provides the key to understanding the 'development of underdevelopment', an important advance in theories of development. More recent work has implicitly built on these analyses, constructing arguments around the notion of globalisation (Giddens: 1976), in which the compression of space and time is argued to have had significant impacts on social life (Guille 1992).

Authors such as De Janvry (1981) and Alain Lipietz (1987) continued to use the notion of dependency to try to make sense of changes in capitalism. De Janvry claims that the modern nation state continues to be a central construct in facilitating capitalist expansion, while Lipietz argues that the periphery should be seen as a thermostat for regulating the international economy[9].

What ties these authors together is their joint emphasis on the state as the key development agent, and as offering the most useful and accessible principles around which to organise the activities which fall under the general banner of development.

In contrast to the uncritical views of the state expounded by so many of the early development theorists, the state has over the past fifteen years increasingly come under attack. With the election of Margaret Thatcher in 1979 and the monetarist ideologies she forcefully brought with her, combined with the international recession and a range of other factors, state activity outside broad framework-setting and regulatory functions

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[9] Lipietz's conceptual framework is based in Regulation Theory and draws on the idea that the periphery serves an important function in current Regimes of Accumulation. This, he asserts, is an attack on dependency theory, but the assault on his view by Alice Amsden (1990) is so compelling that one cannot but agree with her assertion that because Lipietz attempts to explain the periphery in terms of changes in the core, he 'is a dependency theorist, and no more successful than they in explaining Third World industrialisation' (ibid: 11).

has increasingly been put on the defensive. As the fortunes of the state as a development player have declined, so those of the market have come into the ascendency.

An additional set of critiques of the role of the state must be mentioned. There is a widespread tendency on the part of authors who focus on the state not to `unpack' the black box of the state - failing to treat states as institutions in which in a number of different interests may play themselves out. This has been left to authors such as Theda Skocpol, who, in her book `Bringing the State Back In' (1989) points to the importance of developing an analysis of the internal workings of the state in order to understand how it functions.

In a local context the work of Deborah Posel (1991), building on the analysis of Stanley Greenberg in his book Legitimating the Illegitimate (1987), serves to challenge views of the apartheid state as an all-powerful monolith. Instead she offers a more complex account of it as a contradictory and conflict-ridden institution needing careful analysis in order to understand the actions committed in its name.

An extension of these critiques is the `private interest' view of the state which claims that as with any private institution, the state, particularly in the Third World, where it is a less ancient institution, has its own sets of interests which require examination. Its monopolistic tendencies lead to inefficiencies which are not accidental, but which serve the interests of certain elites. For authors explicitly concerned with the Third World, there is no such thing as a `public actor' role for the state, it is rather an institution founded in power and class relations, not an abstract concept. Mackintosh goes even further (1993) and charges that in the Third World context the state serves to further disempower the powerless.

Does this mean that in South Africa, for example, one could argue that the RDP is an attempt to empower the new state rather than communities? The state is accorded a central role in the RDP, although it is not a crudely statist document. It argues that 'reconstruction and development require a population that is empowered through expanded rights, meaningful information and education, and an institutional network fostering representative, participatory and direct democracy', and that 'the democracy we envisage must foster a wide range of institutions, of participatory democracy in partnership with civil society on the basis of informed and empowered citizens' (RDP2: 120). The programme is clearly not speaking from the perspective that the State is the only development player worth considering: 'attention must be given to enhancing the capacity of [community based organisations] to adapt to playing a role in democratising and developing our society; .... while] NGOs have an important role to play in democratising our society' (RDP2: 121).

Nevertheless, the state is accorded more importance and allocated more functions than is internationally fashionable. For example, with regard to housing, which has so far been the most high profile and tangible development issue since the election, the document argues that 'although housing may be provided by a range of parties, the democratic government is ultimately responsible that housing is provided to all' (RDP: 23). The point is repeated throughout the document: 'The democratic government must play a leading role in building an economy which offers all South Africans the opportunity to contribute productively' (RDP2: 18). This is the general tone of the RDP: that while other parties have a role to play, the state has final responsibility for delivery. While implementation has not proceeded far enough to comment, the profusion of state coordinating bodies in the section on 'Implementing the RDP' suggests that the state will at least play a significant 'provider of last resort' role, even if other players are encouraged to participate.

HOW INVESTORS VIEW THE STATE

Serious concerns about excessive government intervention in the economy are widely held in the investment community. Investment professionals are generally strongly opposed to the government playing an activist role in the implementation of economic policy, and in many instances this was expressed in extreme terms using the language of free-marketeers. Two distinct reasons for these views were offered by respondents:

1. the apartheid government's mismanagement of the economy has produced the current economic crisis in which structural problems will plague the economy long after the most obvious effects of apartheid have disappeared; and
2. the African experience of government intervention in economic matters has contributed significantly to the African economic crisis.

To investment professionals these two experiences are indications of the need for the state to play an extremely reduced role in the economy, and particularly in investment.

While the general view strongly opposes government intervention in economic affairs, interesting variations were detected: more experienced businessmen and those who come from an Afrikaans background are less hostile to state involvement in economic matters. This may relate to their own lived experiences in which the state played a very positive role in promoting the interests of certain groups and has therefore, in their minds, some ability to impact positively on economic matters. It must be noted though that this is speculative: none of the respondents made this point.

The most negative attitude to government involvement in economic affairs came from two of the youngest respondents. One, the senior investment manager of an black-owned life assurance company, is an aggressive, highly successful English-speaking South African from a very privileged background, while the other is a young British engineer who became a merchant banker. The banker argued strongly in favour of an (explicitly) Thatcherist perspective on privatisation and economic liberalisation. Talking of `apartheid socialism', he vigorously defended the right of individuals to make money, and claimed that states only serve to inhibit this individual activity (Interview: SB).

For most of the respondents, the function of the state should, at most, be to establish `an enabling environment'[10] (Interview: DW); or alternatively an environment conducive to `profitable economic activity' (Interview: JR). None of the respondents made any mention of any other social activities in which the state should play a role, a very telling omission, which when probed revealed that there is little support for state involvement even in traditional areas like education. There was limited support for state-driven essential service delivery, but in this case distinctions were made between the responsibilities of national and local government. Respondents also differentiated between the various types of services: for example electricity, for which users can easily be charged through pre-paid meters, was seen as an area where market forces should be more active, while services like water reticulation and sanitation, for which it is more difficult to charge users, are seen as the types of services that the state should provide, with little room for market forces (Interview: DW). In effect, what concerns investment professionals most is the impact the state's activities have on their ability to generate a profit.

While there is apprehension regarding the new state, there is also a measure of relief that we are going to be getting a government which provides frameworks and direction. One of the older, more experienced respondents, a stockbroker, confessed that while he

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[10] The term `an enabling environment' is the title of a national study undertaken by the Development Resources Centre, into the future activities of NGOs. This is perhaps an example of the private sector making use of ideas generated by the development community.

feared for the policies of the new state, and was apprehensive about the long term viability of the RDP, `the one good thing about [it] is that at least its a plan of some kind... and we have never had a plan.... although what we in fact need is a strategy, a plan that gives a vision but doesn't tell people what to do (Interview: MB).

Investment professionals are apprehensive about the new state generally, but are not panicky. There seems to be little fear that nationalisation, for example, would become a widely accepted practice, and the general concerns that were raised related to `macro-economic populism', and the threat of hyper-inflation that this brings with it (Interview: AJ), or an anti-white affirmative action programme which would disadvantage their children (Interview: MP). This latter fear was cited as the reason why the respondent concerned was due to emigrate five days after the interview. The overall impression was that the investment community has accepted the new political order, but that it has fairly predictable fears that are not unreasonable.

THE MARKET IN DEVELOPMENT

The alternative to the state has come to be the market. The earlier history of development as a discipline (ie until the early 1970s) was an attempt to reduce the role of economics and the market in the field of social advancement. This was not a successful project: in a process similar to that identified by Karl Polanyi in The Great Transformation (1944), it is contended that the market has successfully become an important player in development.

Polanyi's work showed that the market system violently distorts our views of humanity and society. Arguing that economic determinism was a product of the 19th Century, rather than a long-standing objective reality, Polanyi suggested that these market-distorted views were proving to be one of the main obstacles to the solution of the problems facing our civilisation. Polanyi's work showed that 'the national market was not a gradual and spontaneous emancipation of the economic sphere from government control, but quite the opposite: the market was the result of a conscious, and often violent intervention by government' (Esteva 1993:19). In a less traumatic, but similar process, market relations are becoming increasingly powerful in development: there is a widespread emphasis in many development initiatives to empower people to participate in the market, through the provision of skills and support, rather than using approaches which offer alternatives to the market, such as cooperatives or communal distribution systems.

The incursion of economic rationality into development strategies and theories has not been an accidental process. It is rather an attempt to gain some control of a powerful sector and demobilise its transformatory agenda. The emergence of an approach to development which is technicist, economistic, and which maintains the status quo is a result of this trend. For example, the new planning systems used by international aid agencies, such as NORAD and USAID are based in a method known as the Logical Framework Approach, or Objectives Oriented Planning, the basic tenet of which is that what is logical to a development planning bureaucrat in Washington is also logical to a community worker in Bangladesh. The intention of smoothing differences and homogenising development problems is explicitly stated:

> `The purpose of development projects is to induce change whose results are desired within the general project environment and society at large. We assume that there is general agreement about the improved situation before project planning takes place. This will make it possible to agree upon the immediate objective, and the development (overall) objective of the project' (NORAD 1991: 10).

A further point is the way in which the discourse of these approaches are market-based: inputs, outputs, indicators, target groups and objectives are the central organising concepts. The budget is the most important component, and all other aspects of planning documents are there to justify the levels at which expenditure is set.

By injecting a market sensibility into development debates, proponents of market based social forms have colonised a terrain which was formerly hostile to their intrusions. Adam Smith's homogenising `invisible hand' is now accorded a central role in many development programmes. The arguments that supply and demand are the most efficient allocators of resources suggest that despite the social context, some laws are immutable. The argument that it is important `to get prices right' (to give appropriate incentives) is a prime example of economic determinism: it assumes that there are right and wrong prices, and that development should concern itself with getting the `wrong' price `right' (see for example Lal and Wolf (1987)), although this argument is now widely used.)

The idea that prices are socially determined is a notion which most neo-liberal analysis lacks the ability to take on board. This is however not a general criticism of markets: some theorists have come to sophisticate the notion of a market. Mamdani (1992) for example argues that markets need creation and support, since they are not universal institutions, while Toye (1987) takes the point further to argue that government efficiency affects the workings of markets. Sen (1992), also argues that markets are socially constructed, and that fully appreciating their complexity requires an understanding of the social and legal structures in which they are embedded.
Messkoub (1992) argues that the flexibility and adaptability of markets, trumpeted by their advocates, in many situations amounts, to little more than vulnerability.

In the debates about 'States vs Markets', Robert Wade (1990) argues that the success of East Asian economies can be understood in terms of their successes in 'governing the market': he argues that market forces have been harnessed and used to 'pick winners', which are then supported by the state. The developmental possibilities for 'governing the market' seem enormous, and could form an exciting research agenda.

INVESTORS AND THE MARKET

The realm in which investment takes place is the market, and for this reason one can assume that it is the environment in which investors are most comfortable. It was assumed that respondents would support the argument that the market should drive development as much as possible. It was therefore important to assess whether they saw the market as a living entity that can be shaped and moulded by other pressures, or whether it is seen as an immutable set of relations which operate identically despite the context.

The interviews tried to test the internal logic of the argument that markets, even South African ones, always operate efficiently to maximise utilities, and are therefore the institution best placed to undertake development. The questionnaire tested the notion that markets are always the most efficient ways of meeting people's needs.

The responses upheld the hypothesis that investors see the market as the most efficient mechanism for meeting people's needs, and also indicated the durability of this belief. The respondents all see the market as the best allocator of resources, but can concede that it is an institution which has been distorted by apartheid and had its integrity compromised. Despite this, and despite their railings against the flabby institution the market has become in South Africa, investors have faith in the market in ways which would make Adam Smith proud. The see its flaws, they see its ability to be affected by outside forces (usually through state led interventions), but nothing shakes their belief in it.

In our current era this may sound like an obvious point, but the market has not always been viewed in the way it is now: in her analysis of the origins, development and ideology of local manufacturers in South Africa in the early part of this century, Belinda Bozzoli discusses the growth of protectionist ideologies amongst white businessmen of the period. She shows how ideologies are `sets of ideas...which have a social use for the particular group for whom they are developed by ideologists' (1975: 195). A market driven ideology is therefore promoted for particular reasons, rather than simply being an organic reflection of popular opinion.

It is beyond the scope of this project to unpack the reasons why free-market ideologies have so successfully captured the business community's imagination, but two reasons are suggested for this:

* as part of the rise of the 'New Right', the international trend to prioritising markets which started with the election of Thatcher to power in Britain; and

* the success of attempts by the South African state to use free market ideologies to legitimate itself, a strategy which has included using free market explanations to justify its withdrawal from certain activities, such as the regulation of labour supply, the provision of certain services, and particularly its reduced role in financing education.

This process was suggested by Stanley Greenberg in his book Legitimating the Illegitimate, where he argued that there was a need to recognise the complexity of the state, since 'the steady elaboration of state structures... is a symptom, not of effective control, but of insufficient state power, threatened by wilful African subjects who... decline to follow state direction. State control over markets produces tensions and contradictions that undermine and limit the imposition of state goals' (1987: xvii). It is not suggested that the state and business share a set of common ideologists who generate shared functional ideologies, but it is argued that the conditions were provided locally (through the withdrawal of the state and its new support for markets) for processes and ideologies active internationally (ie monetarism) to take root in South Africa.

How then do local investors view our markets? Investment professionals feel that the competitiveness of South African markets varies from sector to sector, and within sectors as well. In certain areas markets are seen as highly competitive, and in others not at all. Oligopolies are seen to exist in sectors such as cement and fire protection, while supermarkets and banking are seen as fiercely competitive (Interview: BY). Three main reasons for the uncompetitive nature of parts of the economy were suggested:

1. Market Size: the South African market is seen as so small that if certain sectors were opened to direct competition, there would not be sufficient volume to justify the number of participants presently active in them (Interview: JR). ..ention was drawn to the fact that in real terms the South African market, with an Economically Active Population (EAP) of less than 10 million people, is small by international standards.

2. The business environment: past policy and practice is seen as having promoted artificial conditions, in which few international pressures were felt, and deals between competitors are easily struck. The term 'hot-house' was used by a number of respondents to describe South African markets. The isolation of South Africa due to political pressures was mentioned as a particular factor here (Interview: GS). Chairman of a leading stockbroking form, Bill Yeowart says:

> 'The environment over the past twenty years has been one conducive to the formation of cartels and the creation of closed interest groups. Import substitution and high tariff protection creates this type of atmosphere. What we see in South Africa are aberrations which wouldn't have taken place in an open economy. But there are nevertheless sectors in which there is very aggressive competition. While the JSE is brutally competitive, you still find that things are quite centralised. Six or seven firms handle sixty to seventy percent of the transactions on the exchange' (Interview: BY).

A leading market analyst, Mike Brown, argues that:

> 'Virtually all trades go into 25 blue chip stocks. Many of the 800 companies listed on the JSE are never bought into or traded by the institutions' (Interview: MB).

The absence of legislation that requires clear and transparent reporting is another factor which contributes to a collusive business environment (Interview: MB): huge companies like the Old Mutual are able to release one page financial statements (because they are mutual benefit societies), thereby allowing opaqueness to go unchallenged.

Exchange control was mentioned in every interview as a factor contributing to an uncompetitive business environment in South African. Controls over the movements of capital in and out of South Africa are seen as preventing a dynamic and growing economy from emerging.

3. The structure of business: The South African penchant for pyramiding in which holding companies own a number of subsidiaries which then own other companies has the effect of obscuring cash flows and other important facts.

Another perspective offered by political analyst Gary van Staden was that the lack of legitimacy of the former state, combined with the international pressure for sanctions, made the cosiness and exclusivity of the business sector seem necessary, and was in fact functional to the survival of business interests in South Africa during the years of isolation (Interview: GS). He argues that the way to change the current situation is to gradually strengthen organisations which act as a counterbalance to the market to ensure that its effects are softened. This is similar to the argument made by David Lewis (1994), who suggests that it is the lack of countervailing institutions which has allowed conglomerates to become so powerful and the market to become so closed and sluggish.

The overall impression gained was that while investors are reluctant to concede the point, and deny it if directly questioned, there is general acceptance of the fact that our markets are not competitive. The reasons offered for this often inform a particular set of solutions which favour privatisation and deregulation.

THE THIRD SECTOR

The third sector has come to be seen as something of a saviour by development analysts from both the left and the right. Rather than operate through the 'Leviathan' state, or through the savage market, non-governmental organisations (NGOs) and other types of non-profit organisations increasingly represent an alternative to either of these two stark options.

On the right, the analysis has come to be that state delivery systems share a set of characteristics with other state enterprises: they are monopolistic, inefficient and ultimately a drain on national resources. At the root of the left critique of the state is the private interest view of the state outlined earlier. This analysis 'extends the individualist assumptions of orthodox economic theory from those who buy and sell in markets to all those involved with the state. Politicians, voters, civil servants are all assumed to act solely in their own interests: they pursue individual gain, not the public good' (Mackintosh 1992: 70).

So for analysts from the right, an alternative is needed to the state because of state failure, while for analysts from the left, an alternative is needed to substitute for market (and sometimes state) failure. The response has been to focus on organisations which are neither market-based, nor located in the state: the 'third sector' comprising NGOs, community based organisations and other service organisations. Analysts who focus on relations within the periphery and who argue that states in developing countries usually represent local elites see voluntary organisations as countervailing forces. They are responsive and diverse, and can be used to empower people at a grass roots level (MacKintosh and Wainwright: 1987).

There are different understandings of the objectives of NGOs. For those who believe that the appropriate policy response to community problems is to encourage self-reliance, NGOs are a way of putting the work of Schumacher into action. Based on the idea that `gifts of knowledge' will serve communities best and make them self-reliant, people who see NGOs in this way view them as delivery structures which will provide the intellectual inputs to make people self-reliant. There are criticisms of this approach: that it is not sensitive to local dynamics and fails to deal with the reasons why people have arrived in their predicament in the first place. It assumes that experts know what is to be done, while in practice the intervention of experts is often inappropriate and causes more damage to fragile social fabric than if communities had not been disturbed by the promise of dollars in foreign aid.

The second approach is one based in the work of Paolo Freire who is credited with introducing the concept of empowerment into social theory. For Freire, learning is a process undertaken dialogically and in a problem posing way. His work was mostly concerned with education, but development workers have applied his concepts in their own areas. They have generated a powerful idea of `working in dialogue with the poor to analyse their actual experiences and to do this is in terms of their oppression' (Thomas 1993: 136). The organisational home for this work must of necessity be outside the state, based on the analysis that states have their own interests, as well as trying to act outside competitive and destructive market relations as much as possible.

Thomas argues that whether NGOs are based on the idea of providing tools for self reliance, or participative action research generated by the empowerment approach, their methods are too restricted to form a general model for social transformation. NGOs are ultimately as diverse as their members, and it is impossible to deduce one master narrative to explain their functions, orientating and abilities. It should suffice to argue that their role in development is an important one, and that the intrusion of market relations into their operations has already started to happen.

NGOs and the third sector generally is one entirely foreign to the investment community. While they are familiar with them in their incarnation as charities, they do not have experiences of them, or a history in which they have been active so that they can appreciate their involvement (Interview:PT). Only one of the respondents was familiar with the acronym NGO, and others simply shrugged off the whole sector as one which does not concern them, and is outside their realm. A banker at a recent World Bank conference commented that 'We just can't understand NGOs - what they do, who works in them and how they function. Its like another world to us'. This indicates an important point of difference between the investment community and the development sector: that an important agent in one is almost entirely unheard of in the other.

PRESSURES ON DEVELOPMENT AND INVESTMENT ACTORS

South African history, as suggested above, can be understood to have involved a repressive state heavily involved in production, but increasingly relying on market based ideologies to legitimate its actions (Greenberg: 1987). Within this framework, the third sector has acted as the spearhead of civil society's resistance to the apartheid state. In development terms, this has meant that enormous power has been vested in the hands of the state, which has failed to use it in the interests of its people. As Greenberg puts it, '[the] entanglement of state and economy in South Africa has left both state and economic institutions in disrepute, without claims to universal purpose (1987:5).

The political democratisation of South Africa can therefore be expected to produce contradictory effects, with the new political elite both repelled and attracted by the enormous power of the state. The RDP, as the development framework for the

Government of National Unity, reflects this ambivalence. The Minister responsible for the RDP, Mr Jay Naidoo, argued recently that while other agencies will be responsible for aspects of the programme, 'ultimately the state must deliver' (Business Day: 17 June 1994), indicating that while the lessons of statism have been recognised, a deep seated belief in the state as the principal agent of delivery remains. In addition to this it should be noted that Naidoo comes from the union movement, which for historical reasons has been hostile to market forces and which has played a key oppositional role. For these reasons, the state was bound to be seen as something of a prize[11].

Plans for the implementation of the RDP are still unclear, despite the release of the White Paper. The minister responsible is a Minister without a ministry, and is housed in the President's office. Funds for the Programme are so far only those trimmed from other budgets (totalling R2,5 bn), and fall far short of the amounts necessary to meet even the most basic targets. Plans for the programme are that provincial governments will be responsible for implementation, and to this end each provincial government has established their own RDP office.

Regional RDP offices were required to submit plans to the Minister by the end of July 1994, but few of the regional offices were able to meet this deadline. The regions most on track are amongst those which one would have expected to have had the greatest problems: North West, OFS and the Eastern Transvaal. Reasons for the delays by the other provinces included disputes over the demarcation of borders, and delays in establishing regional administrations (Star 12 August 1994).

[11] The role of Leninist ideologies in promoting a statist view of development is not discussed here since the labour movement in South Africa has been more of a 'social movement' than a Leninist strike force.

The role of the Development Bank of South Africa in implementing development is particularly worth examining: given its history as the institution charged with the job of implementing separate development, the Bank brings with it a technical and authoritarian tradition, with a recent superficial gloss of community accountability. It has played a key role in formulating first drafts on important documents, such as Terms of Reference for the various task teams. An analysis of these documents shows a poor understanding of the `new' vision of development needed for a `new' South Africa: bureaucratic structures abound, with multiple lines of authority (see for example the Terms Of Reference for the Urban Development Task Team of the RDP). The central concern continues to be control - even if phrased as a desire for `co-ordination'.

In July 1994, compromising statements by then Chairman of the Bank's Finance Committee, Desmond Krogh, were leaked to the press and led to his resignation (Weekend Star 9 July 1994). These proposed an approach to undermine the RDP, and serve as an indication of the depth of the Bank's difficulties in changing its nature. While the Bank has responded by extravagantly `swearing allegiance' to the Programme, it remains a problem that South Africa's premier development institution continues to be tinged with an apartheid mentality and staffed by the same people responsible for implementing separate development under the apartheid state.

It is difficult to generalise about the business community's approach to development. Besides individuals' personal differences relating to ethnicity, backgrounds, age, and experience, there are differences between various types of institutions. There would appear to be a difference between the capacity of banks and financial institutions to participate in developmental projects. Certain respondents argues that while institutions are risk takers because they are obliged to be since they have to take a long view of investments, banks are not (interview: DW). Others take a different position, arguing that while banks are more prepared to take risks, life offices and other institutional investors are more risk averse (Interview: JR). This latter view is shared by a researcher from the Labour Research Services (LRS), who says that Life Offices are extremely conservative and reluctant to invest in anything that does not have a virtually guaranteed return (Interview: MA).

A case in point is ESCOM's Electrification Participation Notes (EPN) issue, a deal brokered by Theta Securities. Daan Wandrag claims that every investment house he approached invested, but that no banks are participating. He argues that

> 'banks are spoiled: they have been concentrating forever on lending to blue chips and high net-worth individuals. Everything black to them is risky, and more expensive, so they stay away. Small loans are seen as expensive, particularly the handling costs. Banks operate off the British system which is not appropriate to South Africa. It's too formal and restrictive. I've taken deals to banks and been rejected, but taken the same thing to insurance houses and had them accepted. Banks will find a reason not to invest, while institutions have to be more proactive: they have to see what can be done to productively use their assets.'

More than two thirds of the respondents disagreed with this view, supporting that proposed by the respondent from the LRS. For example, the Senior Investment Manager of African Life argues that banks can afford to be more innovative, and that it was they who got the options and futures markets operating in South Africa, at risk to themselves. Institutions, on the other hand, because their performance is so minutely monitored every quarter, are obliged to constantly 'look over their shoulders'. Life offices are obliged not to move too far from the norm, since this will attract unwanted attention from trustees. He claims that it is only at quarter-ends that one will see big movements in the shares held by institutions, and even in this the big players tend to get followed.

Of the respondents who directly answered questions on how they saw South African investors risk profile, half saw them as averse to taking risks, a small number felt that it varied from investor to investor, and a quarter felt they are `dead centre' on a risk averse to enterprising continuum. All the respondents who work for stockbrokers felt investors are risk averse, while the merchant bankers were equally divided between risk averse and dead centre, as were the senior investment managers at the life offices. None of the respondents felt that South African investors are imaginative or prepared to take risks.

One of the respondents based in a brokerage firm stated that investors are `only just up from deathly dull' (Interview: GS). A senior market analyst at a prominent stockbroking firm argues that South Africa has sophisticated institutional investors, but that

> `we are not cowboys like the Americans. Local managers look very comprehensively at performance before investing. And I must say that they are good at their jobs as any mangers I have seen offshore. Although I will admit that this is not a competitive environment because of the hothouse effect. Our small market offers few options really' (Interview: MP).

It can be seen that South African investors do not feel themselves to be particularly prone to taking risks, and the majority of them recognise their own cautious nature. This was never defended or seen as something positive: it is clearly something investors feel needs justification, and reasons for this risk aversion were offered in most instances. The reasons offered have been detailed above in the section on the market.

Generally, the comment by political analyst Gary van Staden seems correct: he says that South Africans have lost the skill of taking risks and of being entrepreneurs. The effect has been the consolidation of a business sector which is generally `very boring. This is partly due to our domestic policies which have for the past half century been very introspective and has also been produced by the silent alliance between the business community and the South African Government, in which business quietly agreed to hold the line and stay silent' (Interview: GS).

INTERNATIONAL DEVELOPMENT INSTITUTIONS IN SOUTH AFRICA

It should be clear that the RDP is a well intentioned programme which faces the challenges so common in most developing countries, of institutions, processes, missing capacity and tensions between the central and regional governments. At the same time the local government elections planned for April next year are getting closer, which puts pressure on politicians to be seen to be delivering on election promises. An additional pressure is that within five years sufficient gains must be visible to the electorate to vote the ANC back into power.

These political pressure translate into pressure on the RDP to deliver effectively and quickly. The World Bank has established an office in Johannesburg with a very low profile, and has undertaken a series of research projects, most of which are concerned with black economic empowerment. Beyond these few interventions it is ominously quiet. This may have something to do with the series of meetings held recently to assess the IMF and World Bank's roles in the international economy. The rise of extremely profitable 'emerging market' financiers has led to doubts about the need for the World Bank to play this role, except in the 'basket case economies' of Africa and Latin America (where it has had its fewest successes).

It is clear that the World Bank needs a high profile success which would assist in guaranteeing its place in the new international economic order: South Africa could conceivably play that role - provided it succeeds. The Bank offers technical expertise, resources and experience which may make up for South African deficiencies in capacity. For these and other reasons it is not unlikely that the Bank will be invited to play a role in the RDP in the medium to longer term. (It must be pointed out that this is a speculative argument: there is nothing conclusive in the press or in government policy at the moment which would suggest that this is the case.)[12]

Extremely telling has been the caution with which international investors have approached South Africa's markets: there has been no flood of investment into the post-apartheid South Africa. 'Over the years I have become very cynical about deals put together by foreigners: You hear lots of talk, a lot of notebooks, but no chequebooks' commented one respondent (Interview: DW). 'Most of the grants made by international financing agents have strings very firmly attached, the money is not unconditional, and these funds are often used to achieve the objectives of the groups which made them available, which is often at odds with what local needs are' (ibid).

Ultimately, South Africa will have to rely on local processes and initiatives, and most important, local resources to finance its development push. This point has been recognised by the state, and the point was made by Foreign Affairs Minister Alfred Nzo, when he told Parliament that 'Members should take note that South Africa cannot bank on long-term development assistance from abroad as an input into the RDP' (Citizen: 9 August 1994). Few respondents expect much in the way of support from international investors. The work of drawing South African investors into the development process is a priority if development is to take place at all.

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[12] There are of course many international agencies which have been active in South Africa for a number of years now: these include Oxfam, the European Union, various sectarian German foundations, and Canada's IDRC to mention a few. These play a range of roles, primarily offering resources to NGOs and community groups.

CHAPTER FOUR: ACTIONS - WHAT THEY DO AND HOW

In order to understand how private investors could possibly participate in development projects, it is necessary to look at what kinds of action take place in each of the two sectors, and to try and construct a deeper understanding of the processes of investment, as well as what actions are involved in trying to undertake 'development'. This chapter looks firstly at the arenas in which development and investment take place, the types of action involved in both investment and development, and finally the results of both investment and development.

ARENAS

The first arena in which development will take place in South Africa will be a political one, primarily in the form of Parliament: legislation to enable the RDP to be implemented will first have to be passed, which will enable the various Departments and agencies, as well as NGOs and other actors to have their roles mapped out for them. A brief review of two key pieces of proposed legislation is therefore undertaken.

The first key piece of legislation to be tabled is the Development Facilitation Act, which aims to eliminate the red tape hampering the state's attempts to construct houses and meet other social backlogs. This Act will combine for full effect with the RDP Fund Act passed in June, which provided for the establishment of an RDP Fund to be used for RDP projects and which will hold funds from all sources. It is to be controlled by the Minister responsible for the RDP but held by the Reserve Bank.

All existing legislation is currently under review as part of the framing of the Development Facilitation Act, and new laws will aim to create new rights and obligations for various parties. Another key set of legislation will be labour laws which will aim to equalise power relations between employers and workers. Minister Naidoo argues that since the RDP is about empowering communities to take the decisions they need, comprehensive changes to existing legislation is needed (Sunday Times August 14 1994).

Naidoo argues that government will aim for transparent decision making, and that all parties will have full access to proceedings. This, he claims will eliminate the need for lobbying, but this seems unlikely. The new state has already shown a marked propensity to meet interest groups, and it seems that an American system of private pressure and interest groups will be difficult to avoid, particularly given the inexperience of many of our legislators.

Implementation of development projects will be undertaken at a community level, making this vague and contested term an important arena in the new political landscape. The notion of communities was an important component in resistance to apartheid. Whether one prioritised the role of `communities' or `workers' was one of the key political distinctions of the 1980s, and caused many deep rifts amongst groups committed to ending apartheid. Civic associations, for example, based their claims to legitimacy on the fact that they represent `the community'. The elevation of civics to the status of full partner on the newly constituted National Economic Labour and Development Council, which replaces the National Manpower Commission and the National Economic Forum, is an indication of the seriousness with which the new political order views community organisations.

A valid critique of this way of understanding development is that the term `community' often obscures as much as it reveals, failing to state exactly who is represented in the community, and more importantly, who is not. This point is well made by Friedman who argues in his paper `Imagined Communities' (1993), that the term homogenises a range of different interests and is consequently of limited value, since it suggests a moral highground based on representivity, but which is often simply not present. In his paper, he describes the experiences of progressive urban development organisation, Planact, which drew on the participation of community groups to design and implement a development project in a squatter settlement on the East Rand. When key components of the project were destroyed, Planact officials discovered that they had only dealt with the organised, visible sectors of the `the community', and had not taken account of those groups which had an interest in not being seen, such as criminals and illegal immigrants.

Nevertheless, The RDP uses the term `communities' widely and uncritica ,, calling often for community participation and suggesting that the final beneficiaries of development interventions should be communities. While it is now a widely accepted principle that the beneficiaries of development programmes have to be active participants in every aspect of design and implementation, the looseness of the term `community' as a description of the target group of development is so vague as to be dangerous - it is also an important principle that successful development interventions are undertaken with clear objectives and targets.

The arena in which investment takes place is the market. However, as with the term communities, the term `market' describes little. The approacn taken in this project is that markets are social institutions, which have similar dynamics and tensions to other social institutions. Markets contain contradictory opinions, ambivalent actors and competing interests, while their history, structure and the actions of actors within them make markets look very different in different settings.

While actors within the market have different perceptions of it, generally the distortions of the South African market have forced investment decision makers to relate to it as a socially constructed institution, and thereby to recognise the importance of acting directly on it to try and achieve certain ends. While there is a deep conservatism and aversion to risk-taking embedded in the South African investment sector, there is also acknowledgement of the need to intervene in the market for certain reasons. Our national history leans too much to the dirigiste for there to be much of a tradition of hands-off free-marketeering. The general impression gained from the interviews was that if there was a policy and investment framework, which made it clear that the government was committed to certain things required for economic growth, such as privatisation, investors would put their money into prescribed assets, because they acknowledge the need to bulwark the 'market economy' against social forces which undermine its ability to order society. There is an ideological commitment to the market, but with a pragmatic acknowledgment of the need to supplement and shape it.

Nearly all the respondents recognise that South Africa's investors are affected by our unique socio-political context, and that investors and markets here behave differently to their counterparts in other parts of the world. The majority of them felt that this was a result of factors beyond their own control, particularly exchange control which limits investors' horizons. One respondent described South Africa's economy as being in an 'incestuous, ingrown situation, caused by foreign exchange control and the dual currency system which restrict investors to South African markets' (Interview: BY). Another commented that 'the siege mentality which took hold in the 1980s has made our economy a difficult one to work in' (Interview MB).

Half of the respondents felt that South Africa does not have investment instruments that allow imaginative investments strategies that meet the needs of both owners of funds and people disadvantaged by apartheid. One quarter felt that such instruments do exist, and the remaining quarter felt that while they do not yet exist, such instruments are starting to emerge. There was recognition that in the past investment was generally to benefit the white minority (the unending devel' ~ent of areas like Rosebank, Sandton and Claremont was mentioned as an example), and that this will change in the future, when there will be a swing to investing in projects that have a broader benefit (Interview: PT). One senior stockbroking analyst argued that while the various 'investment instruments which have been put together are good, there just aren't enough of them around. If there is going to be big-scale [socially desirable] investment, we're going to need far more ways of putting your money in' (Interview: MP). In short, the general sentiment was that investment instruments could be structured to meet development needs even if those instruments do not currently exist.

A different point was argued by a political analyst: that there is a desperate lack of imaginative investment instruments, since no-one takes responsibility for creating investment instruments. 'The creation of investment opportunities is everyone's responsibility. Capital must do it to ensure their survival, while civil society has an interest in shaping the nature of economic growth... but I am a bit reassured by the fact that people are starting to realise that there is no money to be made out of an economic wasteland' (Interview: GS).

Earlier in this report it was shown that the respondents overwhelmingly supported market led solutions to problems, arguing that other agencies simply cause distortions, and that market forces offer immutable laws for distribution and pricing, as well as ensuring equilibrium (Interviews TB; JR; DP respectively). However, as pointed out above, the respondents could nevertheless recognise that markets are themselves influenced by the social context and that it can be moulded and adapted, often in extremely negative ways. (The only deviation from this general trend was the political analyst who very consciously recognises the socially produced nature of markets - but that is after all his job.)

TYPES OF ACTION

Is the type of action involved in undertaking a development project one in which investors can imagine themselves participating? The answer to this question is important because once again it is an indicator of the compatibility of the two sectors, of their ability to interact, and ultimately, the ability of development projects to attract investment on the necessary scale.

Development is necessarily interventionist: it involves entering an arena in which there is a deficiency, and making an intervention, either through a local agent (which is generally the most successful strategy), or by working through a body or institution from outside. This means that development is always disruptive, arguably for the better. Development is about disruptions and change, and this can induce tensions and conflict. An additional tension which should not be overlooked in the evolution of the RDP particularly, is that of competition between regions and the central state. While seven of the nine provinces are run by ANC controlled legislatures, which ran on a `unitary state' ticket, the effect has nevertheless been the creation of regional governments unwilling to toe the national line, and keen to govern in their own right.

What this all says about a federal future for South Africa is not yet clear, but the showdown between PWV Premier Tokyo Sexwale and national Housing Minister Joe Slovo suggests that regional - national dynamics will be important in tracing the development of the RDP. The clash was caused by Sexwale trying to get his own regional housing programme up and running by establishing close links with a specific construction company. It also included an attempt to forge close ties with the Life Offices Association which represents the massive economic clout of over R40 bn in assets held by the life assurance industry.

Action in development has come to mean a certain type of action, which is usually project bound and involves the delivery of a service or a product. A more recent innovation has been pressures to develop programmes, which are focused around objectives prepared by analysing problems and reformulating these as goals. The RDP is structured in this way: each section starts with a problem statement which is then reformulated as a vision and an objective.

The actions one would expect of the private sector would relate to the dynamic and ongoing development of markets, through the vigorous use of investment instruments and the structuring of options in such a way that investors are att acted. The interviews indicated that investors do not feel that this function has been executed. Investors have short term horizons and have put little energy into the creation of dynamic markets: a senior market analyst argues that ir the past there has been siege behaviour on the part of South African business, and that what is needed is a shift to an aggressive, expansionist approach (Interview: MB).

Half the respondents felt that South African markets have a shorter term orientation than markets abroad. These sentiments were more noticeable amongst investment managers at life offices, and less so amongst broking analysts. Two thirds of the respondents felt that sufficient attention was paid to creating markets, while one fifth felt that while attention was paid to the creation of markets, more needed to be done. The same proportion of respondents felt that not enough was being done to promote the creation of new markets.

A view was expressed that `markets take time to develop: you don't just turn on a light and say here is a market' (Interview: TB). The agency responsible for two of the most interesting SDI projects argues against interventions to create markets:

> 'Left to the market, solutions to problems will emerge - although we recognise that due to political distortions the market has failed. You could also argue that South Africa has never had a free market. Under these abnormal conditions you do need interventions, much as I hate them. But these need to be carefully done to avoid further distortions, otherwise you can have the opposite effect and land up hurting people you want to help' (Interview: DW).

It can be assumed that the opposition to interventions refers to interventions by the state: this reveals an interesting distinction which is drawn between private intervention, which is seen as not really an intervention, and public intervention, which is a distorting, and therefore negative, activity.

Amongst investment managers, there was a decided conservatism regarding their work: 'it's not the job of an investment manager to create opportunities. Other people, like Theta Securities, perform that job. We are here to invest funds, not to invent the vehicles for investment' (Interview: TB).

The senior investment manager of Standard Merchant Bank argues that South African investors are risk averse, but extreme in their views, so that if they decide to support an issue, then it is extremely well supported, if not, then it will get no support at all (Interview: SL). While this was projected in the interview as a positive feature since it was suggested that this indicated that once investors make a decision they run with it to its logical conclusion, it could also be taken to indicate a lack of individuality amongst investment decision makers, in which few investor stray from the centre, preferring to stick with the herd.

Market creation is seen as only part of the process of creating viable investment instruments: the senior investment manager at African Life points out that companies like ESCOM and Umgeni Water have successfully created markets, but what investors need is guarantees that having bought in, they will be able to get out. Local authority guarantees are seen as one way of doing this. Attention was drawn to some of the other strategies which encourage the formation of markets and which are currently starting to emerge. One of these was the franchising boom which is starting in South Africa. `But', commented a senior market analyst, `franchising may be the answer, but there are lot of problems with franchising, and none of this answers the question of what we are going to do with the IDC and the SBDC' (Interview: MB).

Generally respondents expect there to be greater attention paid to the creation of markets in the future. The Chairman of a large stockbroking firm argues that there has been a focus in South Africa on equity markets, which has left the whole area of debt underdeveloped. `There are currently lots of openings for creative ideas in the creation of markets, yet it takes a long time for these things to happen' (Interview: BY).

The ebb and flow of finance is another important point to bear in mind when trying to understand the short term view taken by many investors. results can be manipulated, and this is so common that quarterly performance results really offer little insight into long-term performance. Given that quarterly results are so manipulated, the short term view is an opportunistic one (Interview: JR). While foreign investors see South Africa as an exciting emerging market, this view is not shared by South Africans, who are concerned by the two-country dynamic which divides South Africa into a 1st and a 3rd World (Interview: GS).

Investors are as capable as any other people of holding inconsistent and contradictory views: that the market is always the best possible way of directing resources, yet recognising its ability to be shaped by social forces and the consequent need to act directly on it for political and social reasons. This is ultimately a positive finding for the ability of investors to participate in development. That investment decision makers recognise the need for intervention to shape the market, however that recognition is phrased, suggests potential participation by business in supporting development.

THE RESULTS OF ACTION

The most fundamental questions about development are the most difficult to answer. The question of whose interests are served through the sophisticated and burgeoning development sector, with its host of consultants, technical experts, intermediaries and representatives becomes more and more difficult to answer with certainty, as the benefits to the most disadvantaged seem to become less and less clear. Is the objective of development interventions to create modern industrial societies similar to those found in the prosperous North West hemisphere of the globe? This question is particularly important for sociologists: if modernism and progress are the objectives of development, is sociology, as a modern discipline closely tied up with the industrialisation, a useful discipline with which to assess the efficacy of development?

These fundamental questions are more difficult than ever to answer, and are similar to some of the questions facing sociology as a discipline. Theories of development need to be understood in relation to debates around one of the most important organising principles of our age: modernity. The notion that one can identify a stage of growth in which society matures and has become sufficiently sophisticated as to be 'modern' is an important element of sociology. Even if not directly, the concept of movement, change and growth is important to sociologists for understanding the course of history.

While the work of theorists such as Foucault, Harvey, and other post-modernists have stripped modernisation theory of much of its credibility, the idea of an inevitable and unproblematic movement from the `traditional' to the `modern' remains a powerful metaphor. Its power lies in the comforting thought that no matter how destructive and damaging modern life seems to be, its intrusions are inevitable and that there really is no point in opposing modernity. The work of the `fathers' of sociology, Durkheim, Weber and Marx, all draw heavily on the notion of progress and advancement in their versions of sociology.

For Durkheim, the development of society is the path from the primitive to the modern. The two phases are so distinct that a number of clear features can be identified: traditional society is organised around clan or family groups, and there is great social cohesion; norms and values are shared, and society is governed by a `mechanical solidarity'. Each person performs a number of tasks, and because of this limited division of labour, there is a limited interdependence. As society develops, the tasks become more specialised and differentiated, and the division of labour more complex. People become more dependent on each other, leading to `organic solidarity', in which each part of the `organism' - society - work in harmony with other parts to function as a whole. Norms and rules give way to individualism and free will.

In looking at the shift from pre-capitalist societies to capitalist ones, Max Weber drew on cultural explanations to as great a degree as Marx and or Durkheim. `Rationalisation' is the key concept in a Weberian explanation of change: in order to explain why certain societies become capitalist and others not, cultural abilities to adopt to rationalism are invoked. Marxist evolutionism is also widely documented: for Marxists the path from the traditional to the modern is closely tied in with the development of the forces and relations of production, while structure and function serve as two valuable prisms through which to observe the growing tensions and contradictions between the two.

Sociology (including the Economic variety) is thus closely tied up with the modernist project. At the same time, the relationship between modernism and development is cloudy: authors such as Sachs (1993) argue bitterly against `development' as an attempt to create clones of the wasteful, greedy and self-destructive societies of the West. Nevertheless, sociology remains a valuable tool for understanding the processes of development: it provides systems and mechanisms for dissecting social relationships and trying to understand the true motives and dynamics behind any one process.

For example, sociological analysis can be used to understand some of the complex dynamics behind the RDP. Chapter 2 of the RDP is entitled "Meeting Basic Needs". To do this the document proposes `programmes to redistribute a substantial amount of land to landless people, build over one million houses, provide clean water and sanitation to all, electrify 2,5 million new homes and provide access for all to affordable health care and telecommunications. The success of these programmes is essential if we are to achieve peace and security for all' (RDP: 8). Rumboll (1994) argues that this has certain social implications: quoting Rahnema (in Sachs 1993), she argues that in most developing countries, neither the production of economic resources and commodities, nor the extension of social services have necessarily served the poor. She claims that the RDP in fact, is in the business of interpreting, as well as satisfying, the needs in question.

The obvious counter to these arguments is that the ANC went to its constituency and asked them what they want, and formulated the RDP around their responses. This seems less and less true: take the example of land. The ANC claims that the rural people are hungry for land, and this is thus one of the central concerns of the RDP: `Land is the most basic need for rural dwellers' (RDP: 19). Yet one of the ANC's most authoritative advisors, Stan Greenberg, who ran focus groups with voters in rural areas to determine their policy preferences, says that he `could not find a single soul who said that what they wanted was land out of the elections' (Business Day 24 June 1994).

The Land Question aside, what this indicates is that when action is proposed by developmental interventions, even when the institutions concerned claim extensive consultation and purport to have the ability to speak for others[13], development is ultimately about one set of players interpreting the needs and desires of others; the second point is that sociological analysis is useful to analyse these dynamics. The reasons why development projects are initiated is as varied as the projects themselves: whether they are cynical attempts to maintain the status quo, or meaningful bids to give ordinary people control over their lives will depend on any number of factors, but simple good intentions is the least of the objectives informing development.

If a range of interests inform development initiatives, what is the role of interests in investment? Is investment simply about maximising returns for the owners of the funds, or are there other forces at play as well? Two thirds of the respondents who addressed themselves directly to the question of interests replied that it is only the interests of the owners of funds that can be considered. 'You can't play Father Christmas with other people's money' was one of the answers that captured the general mood (Interview: TB). A quarter of the respondents felt that while the interests of the owners of the funds was primary, one needs to look at the social context and draw conclusions about the likelihood of a profit being generated. In this way some cognisance of the social effects of investment was recognised. A single respondent felt that while a decent return is the prime motive, 'investors generally have a fairly strong sense of the community, and how where they put there money affects. But in the end all this is a function of profit anyway' (Interview: AJ).

[13] Ferguson (1992) discusses some of the results of development interventions which are not planned in ways which include local communities and the effects this has - the empowerment of local elites.

One of the respondents who strongly argued that owners interests must always come first suggested that perhaps it would be appropriate for the fiduciary responsibility of life offices to be extended to include broader factors, but at this stage this was not seen as possible for unit trusts and investment bodies (Interview: MP). Taking a very legalistic approach, he claimed that it was an immutable principle of investment that the return offered to owners of funds must be the primary determinant in making investment decisions.

An interesting trend was that the more experienced the respondent, the broader the view they took on fiduciary responsibility: the director of a large stockbroking firm for example clearly distinguished between a narrow and a broad understanding of fiduciary responsibility, and suggested that on a personal level he tends towards the more broad interpretation. However, he feels that one needs to gauge how ones clients feel about the issue and to play it to their requests (Interview: BY).

The ethos of only considering the most narrow set of interests is one into which investors are inducted very quickly, according to a political analyst Gary van Staden. He argues that there is now a need to broaden the scope of interests taken into account when making investment decisions, since political successes depend so profoundly on economic delivery. He points to the urgent need to divert funds from Sandton City to building houses, `otherwise there will be no-one to shop in the new shopping malls' (Interview: GS).

The respondent with most experience in putting socially desirable investment projects together, Mr Daan Wandrag of Theta Securities, argues that the way to overcome this question is to include as many interests as possible. He claims that inclusivity is the best way to ensure consensus. He also makes the point that every deal must start with a clean slate, since one cannot transfer what was done in the past to another project: they are all different.

Wandrag argues that South African investors behave differently because of their unique social context: `the environment we work in always affects our decisions. But despite small context-related difficulties, such as the fact that investors perceive indiscriminate government spending as a big threat in South Africa (despite all indications to the contrary) and the fact that investors generally overreact negatively, there is no major difference between South African and US investors: the same fundamentals apply. Assets and liabilities must be matched, they need the same macro-economic discipline' (Interview DW).

DEVELOPMENT ANL ROWTH

The view most widely held by the research respondents was that growth and development require the same conditions, and that without economic growth, development is not possible. The other view, that development makes growth possible was not found. It was argued that, in the housing sector for example, `no matter how inventive banking whizzes are, if the population is still unemployed, they will earn low wages and never be able to afford housing. The only sustainable way to get these people involved is to increase economic activity' (Interview: DW).

An interesting response found early on in the interviews was an absence of awareness of the whole concept of development. When asked how he saw the relationship between economic growth and development, one respondent replied `Development? Development of what?' He went on to argue that development strategies will never work in South Africa because bureaucracies necessarily `make a mess of things'. He argues that as we become more African, the style of business is going to change, and that corruption and the need for graft is going to become more noticeable: 'We are going to have to give backhands to get business coming our way'. He argued that 'there is 66% correlation between growth and social upliftment, but not always. These things need to be seen in terms of performance' (Interview: JR). This set of responses indicates the general pessimism that South African investors feel, while also indicating their need to quantify the unquantifiable in order to make sense of them.

CHAPTER FIVE: CONCLUSIONS

This project aimed to assess the likelihood of the private sector investing in development, and to identify some of the obstacles to such business involvement. In order to do this, the approach offered by economic sociology was used, with its focus on actors and actions. The 'sociological imagination' of C. Wright Mills was used to extrapolate from a set of interviews using a semi-structure questionnaire and a survey of the press to speculate about the ability of the private sector to interact with development initiatives.

No claims of representivity are made here: the project does not hope to represent the ability of an entire sector to participate in a social process. However, given the difficulty of devising a method for examining two such different sectors, it was felt that there is room for an exploratory investigation such as this.

The interviews and the press survey indicate a growing together of the two sectors, as business becomes more familiar with the development sector, specifically as a result of the widespread acceptance of the RDP, and as market forces become a more widely accepted agent in development. The interviews also show the malleability of ideology, shown in the shifts and changes in the ideologies of both sectors over such a short time.

A more substantive finding is that business will invest in development so long as it is able to make money out of the transaction, but it remains constrained by a number of factors, the most important of which is its embeddedness in a context which is not sensitive to development processes. This makes development seem a risky investment option, and therefore less attractive investment option. Other constraints are the difficulties business experiences in interacting with NGOs and the reliance of investors on market explanations for social problems, at the expense of their ability to view state involvement in the economy positively.

The report highlights the need for private sector investors to be treated as a very idiosyncratic and important constituency in their own right. There are certain themes and issues which always have a resonance for private sector investors across the board, and these relate to concerns like risk, return and performance. In order to make themselves attractive investment options, development initiatives need to speak in these terms, but usually simply do not have the capacity to do so (exceptions would be major utility companies like Escom) - and one could argue that if they tried to develop such a capacity it would be to the detriment of their ability to act as development agents, which requires a focus on empowerment and participation.

This is the central finding of the research report: that for business to become involved in development, it requires intermediaries, and further, that the nature of these intermediaries will be important. A public sector development authority which brokers deals between private investors (such as insurance companies and pension funds) and local development agents providing public goods and services (such as private sub-contractors and local governments or utility companies) will have a very different effect to a private profit-making company (such as Theta Securities) playing such a role. A public agency could also make concerted efforts to build vendor capacity during delivery, thereby contributing to sustainability.

ACTORS

The report first looked at what actors are active in each of the two sectors and argued that while each sector prioritises a different set of actors, they are neither necessarily nor structurally exclusive. It was shown that state involvement in the economy is viewed very negatively by private investors, but that this is at least partly an historically and ideologically produced phenomenon, not necessarily related to the task of investment management. The manner in which investors view the role of the state and the degree to which they tolerate the state involvement in the economy is related as much to their own experience and personal background as it is to their being members of the capitalist class.

This says much about the socially constructed nature, and therefore the flexibility of many ideologies, and underlines the usefulness of economic sociology's concept of embeddedness since it requires that a range of personal and structural factors are taken into account in order to make economic decisions effectively. It also suggests that development projects hoping to find private sector investors would do well to consider such factors before entering into any relationships.

While the market in seen by many in the development community as destructive and as a force acting counter to development, it has been allocated an increasingly important role in the RDP, evidenced in the gradual involvement of financial institutions in the housing sector, for example. It was shown that this is an international trend, as market forces are increasingly seen by international development agencies as a valid mechanism for stimulating sustainable development.

This does not mean that `the market has won': rather, it shows that the market is understood in many different ways, and that the manner in which it viewed is socially produced. Private sector investors hold contradictory and inconsistent views of the market, fetishising its ability to establish equilibrium, set prices and generally perform all the tasks neo-classical theorists say it can, yet also conceding that its ability to operate was constrained by the dead arm of the apartheid state. In short, despite their faith in the ability of the market to direct economic activity, they nevertheless see it as a social institution, moulded and shaped by the context in which it operates. This view is necessary for adherents to market principles to be able to explain its failure in many settings, not least apartheid South Africa.

The serious obstacle to private sector investment in development identified by the project was the fact that the Third Sector, and more specifically NGOs, are just about unknown to investment professionals. It was shown that NGOs have come to be seen by development practitioners all over the world, for a range of different reasons, as flexible, innovative and dynamic development actors, able to get to where states and markets have failed. The fact that investors do not understand the NGO sector, with its locally produced imperatives and histories, and its important lobby and advocacy components means that there is a mismatch between the two groups, which will impact negatively on their ability to work together and add value in the process.

ACTIONS

The second section of the report looked at the actions undertaken in both development and investment, the arenas in which these actions are undertaken, and their results. It was shown how development actions in South Africa have come to be understood as part of a delivery-oriented process, with a short term focus being the result of the emphasis on delivery, to the detriment of the ability of development actors to concentrate on process-related issues such as capacity building and empowerment. This stress on the short term will impact negatively on the ability of development programmes in South Africa to meet their objectives, since development, in order to be sustainable, needs to be seen as a long term project, particularly in the context of human resource development.

It was suggested that the first arena in which development will take place will be a political one, with Parliament and legislative processes identified as the key mechanisms by which development will be initiated. It was further suggested that because of the statist tone of the RDP, government departments, which will be key implementing agents, or at best responsible for coordination and facilitation, will form an important arena of action. Tensions between the old bureaucratic order and the new will form an important dynamic which will act significantly on the outcome of development initiatives. The ability of the new political order to substantially change the nature of its government departments must be questioned, and this very issue comprises the most powerful reason why the state should be looking to outside agencies (and particularly NGOs) to implement the RDP as much as possible.

The second arena identified was that of communities, and the difficulties associated with using the term in an increasingly technical sector were raised. Development is no longer simply about helping needy people: it is concerned with very exact measurements of impacts, and indicators for doing so. The vagueness of the term 'community' and the difficulties associated with treating it as an unit of analysis, it was suggested, will make implementation of the RDP difficult, particulary if it does not define its target groups more clearly.

Distinct from the arenas in which development takes place (namely through the state and in communities), the point was made that investment takes place in the market, which serves ultimately as both an actor (in the minds of investors) and an arena. It was suggested that the power of this ideological construct - the market - could be an obstacle to private sector involvement in development. It was shown that investors have contradictory understandings of the market, which they hold simultaneously: that it is an immutable set of laws which always function to bring equilibrium, but that it is also shaped by its social context.

The importance accorded to the market need not necessarily form an insurmountable obstacle to private sector involvement in development, provided that development practitioners use the discourse and ideology of the market strategically, in ways which serve their own needs. By emphasising the poorly developed nature of markets in South Africa, and framing initiatives in terms of encouraging access to markets and enhancing demand, it would be possible to generate a large enough area of consensus for development projects to draw in the private sector.

For development agents to use market-based ideologies to promote development would require a more subtle and socially-embedded analysis of the market, and of the opportunities that the devotion of the private sector to it offers. Whether the South African development community has the capacity to shake off its antipathy to market forces remains to be seen, but given that few development practitioners have had much experience in dealing with the market, there are few reasons to be optimistic about these prospects.

Development is an interventionist process which brings change and disrupts established ways of doing things. Investment, by contrast, claims to operate by harnessing existing relations, primarily through the market. However, the central argument of this project is that market relations are not inherent in all social systems, but have to be introduced, and are as socially produced as any others. In this way there is an overlap between the types of action in development and those in investment. The disjuncture exists in that investment shrouds its interventions in the argument that markets exist naturally everywhere, providing development initiatives with few access points for collaboration and cooperation. The additional point made in the study is the peculiar nature of South

Africa's markets, which are flabby and uncompetitive, with collusion in certain sectors and an aversion to risk taking recognised even by investors.

In trying to understand what the results of development actions are, one is drawn into the broad debates about the future of our societies, and the critical choices that face us over the next few decades. Environmental degradation particularly has made questions about the type of future we are trying to build increasingly important: the West may, as Marx claimed, reveal the future of other developing societies, but whether this is desirable is another question. Industrial and technological progress seems to offer less and less to unborn generations, and development interventions are being forced to grapple with this question: what are we trying to `develop' into?

As a discipline which emerged out of the Industrial Revolution and which has had its own evolution tied up with the modernist project, the questions raised here are of special importance for sociologists. Post-modernist has a few points to make on these issues, yet remains ultimately limited by its status as a critique of modernism - it fails to offer a competing vision. In rejecting master narratives and universal truths, post modernism explicitly confirms that it cannot offer a vision to use as a guide for de pment.

Both development and investment are about interests. Development in particular embodies a process in which one group of people speaks on behalf of another. Developmen involves undertaking actions on behalf of others, even if one does aim to include them as much as possible, through participatory techniques. For investors, interests are viewed narrowly: most investment professionals understand fiduciary responsibility in a very limited way, and feel that if they were to take broader social concerns into account when placing funds, they would in effect be playing `roulette' or assuming `a Father Christmas role' with other peoples money (Interview: TB).

An interesting trend identified in the report is that more experienced investors have a wider understanding of fiduciary responsibility, and would want to include more developmental projects in their portfolios. This suggest two things: firstly that the longer one is involved in investment the more one becomes aware of the impact of social factors on the investment environment, leading to a greater willingness to use the market as a mechanism to bolster desirable social developments. The second point is that the high degree of correlation between adherence to free market ideologies and narrowness of the view of fiduciary responsibility (as well as the correlation between the converse views) suggest that the narrow free market understanding of fiduciary responsibility is also a relatively recent innovation, tied up with the intentional promotion of market values in South African society.

CONCLUSION

Development in the South African context has come to focus on delivery, giving it a short term character. This does not mean that development is a short term process, but that this is its nature in South Africa at the moment. Due to the enormous backlogs created by apartheid, along with the tenuousness of our political stability, delivery is what counts. Politically, a great deal depends on the ability of the development sector to deliver social goods and services, a fact increasingly recognised by the investors. Despite their very voluble commitment to development in the form of the RDP, there are serious limits on the ability of the two sectors to cooperate.

The antipathy of investors toward the state, while partly an ideological construct which can be eroded, will form a major obstacle to fruitful collaboration by the private sector in development. Housing will be the area in which investors will be most comfortable putting resources, since there is a product and a consumer liable for payment, whose assets can be attached and against whom summonses can be issues. It is unclear whether this degree of involvement will be sufficient. Other processes, particularly those related to dealing with a traumatised population of young people, primary health care in the context of a growing AIDS epidemic, the provision of basic infrastructure and of a social support system will require a commitment to less tangible investment and less of a bankable return.

There is substantial potential for private sector involvement on key areas of development, where the components of a good investment exist, viz low risk, and a secure return with adequate performance. But there are serious limits on the ability of the two sectors to mesh without the use of intermediaries, given their different objectives and methods of operating. This all points to the need for a non-profit or public sector brokerage able to facilitate dialogue between investors and development practitioners.

The potential for efficient and effective public / private partnerships exists - investors recognise the political importance of the sector - but that potential needs to be developed. This should be undertaken by a public agency, possibly with a high degree of private sector representation, and represents an important task if development is to be sustainable and people-driven, as the vision of the RDP suggests it should be.

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Press Review

The review section of this research involved a daily scan of the following newspapers for eight months, from May to December 1994:

Business Day
The Citizen
Finance Week
Finansies en Tegnies
The Financial Mail
New Nation
The Sowetan
The Star
The Sunday Times
The Weekly Mail and Guardian

Other ad hoc and occasional publications were also reviewed, including prospectuses, submmissions from various organisations on the RDP, as well as briefing documents.

APPENDIX ONE: Respondents:

Structured Interviews:

Daan Wandrag
Executive Director: SDI
Theta Securities

Bill Yeowart
Chairman
Simpson McKie

Mike Brown
Senior Investment Analyst
Frankel Pollak Vinderine

Gary van Staden
Political Analyst
Kaplan and Stewart

Dennis Paizes
Deputy General Manager: Investment
Fedsure

Steve Buck
Senior Manager: Primary Capital Market Securities
First Merchant Bank

Jeremy Roberts
Senior Manager: Investments
African Life

Adam Jacobs
Senior Economist
ABSA

Theo Botha
Manager: Investment Division
UAL Merchant Bank

Nigel Franks
Senior Partner
Nigel Franks and Assocs

Mr Sylvio Leferbv
Senior Manager: Investments
Standard Bank Investment Corporation

Mr Manny Pohl
Senior Analyst
Davis Borkum Hare and Co

Peter Theunissen
Regional Manager: Investments
Old Mutual

Jim Buys
Senior Economic Consultant
Anglo American Corporation

Unstructured interviews:

Brian Whittaker (BW),
Executive Director:
Urban Foundation

Lance Japhet (LJ)
Managers - Financial Resources:
Urban Foundation;

Hugh McLean (HM),
Programme Officer:
Liberty Life

Nick Segal (NS),
Alternate Director:
Group Consultant, Strategy and Public Affairs:
JCI

Mark Gonsalves (MG),
CSI Manager:
JCI;

Kenneth Clarke (KC),
Editor:
CSI Newsletter.

Mark Anderson (MA)
Researcher

Labour Research Services.

APPENDIX TWO: Interview Schedule

DECISION MAKING

1. What systems do you use to make investment decisions? What variables other than market performance come into play? How do you obtain the information you need? Does this information meet your needs? Are there any obvious gaps?
2. Are South Africa's markets sufficiently competitive? It is said that the lack of countervailing forces (unions, the state, civil society) in South Africa's markets fosters collusion and oligopolies. Do you agree? How can this be changed?
3. How much discretion do you or individual investment managers have in making investment decisions? What limits or constraints are placed on you by the institution, your peers and senior managers? Are you / they `punished for taking risks' (eg if they back a non-blue chip investment that looked promising but which failed to perform)?

SOUTH AFRICA

4. On a risk averse-to-enterprising continuum, how would you describe South Africa's institutional investors? Do you think that investors, particularly institutional ones, are imaginative? What do you think accounts for this?
5. When investors and their managers place funds, are the only interests that inform their decisions those of the owners of the funds? Do you think other interests should be considered. If so, what mechanisms would allow this to happen?
6. Do you think `short-termism' is more of a phenomenon in South Africa than in other markets? Why?
7. Is sufficient attention paid to creating markets, for example in bond issues by local authorities.

DEVELOPMENT

8. What do you think the relationship between social advamcement (development) and economic growth is? Do they require the same conditions?
9. Does South Africa have instruments that will allow imaginative investment strategies that meet the needs of both owners and people disadvantaged by apartheid?
10. How do you view prescribed assets? Would you prefer them to an investment code of conduct? Are there preferable ways for the state to direct investment?
11. Does our unique socio-political context influence investment activity in distinct ways? Do you think South African investors operate differently to international investors operating in our markets?

RACE AND GENDER

12. Do you think the race and gender profile of portfolio managers is a problem? If there were more black investment managers operating, would the investment community make different decisions?

PERSONAL

13. Personal biography: age, background, formative work experience, reading material, schooling and postgraduate education, political affiliations.